CREATING CORNER STORES & CORNERSTONES

How NYC Can Help Mission-Driven Developers Create and Sustain Commercial and Community Spaces

PRATT CENTER FOR COMMUNITY DEVELOPMENT

January 2023

ACKNOWLEDGMENTS

Pratt Center gratefully acknowledges the following individuals for their thoughtful insights and review of this report.

Will Spisak
New Economy Project

Michelle de la Uz
Fifth Avenue Committee

Michelle Neugebauer
Cypress Hills Local Development Corporation

Paula Z. Segal
TakeRoot Justice

Paul Lipson
Barretto Bay Strategies

Siddhartha Sanchez
Barretto Bay Strategies

Julia Duranti-Martinez
Local Initiatives Support Corporation

Ismene Speliotis
Mutual Housing Association of New York

Larrissa Ho
Mutual Housing Association of New York

Annetta Seecharran
Chhaya Community Development Corporation

Additionally, Pratt Center would like to thank the many nonprofit developers whose efforts to leverage public resources for the public good of long term affordable housing help strengthen communities and create economic opportunity for low-income New Yorkers.

This report was made possible by the generous support of Goldman Sachs.

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PRATT CENTER FOR COMMUNITY DEVELOPMENT

The Pratt Center for Community Development works for a more just, equitable, and sustainable city for all New Yorkers by empowering communities to plan for and realize their futures. As part of Pratt Institute, we leverage professional skills such as participatory planning, architecture, design and public policy to work on the ground with community-based organizations to challenge systemic inequities and advance sustainable development.

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2 INTRODUCTION

Rising commercial rents along with increasing storefront vacancies have been a nationwide concern for decades but especially in New York City. According to a report released by the New York City Comptroller in early 2022, Manhattan lost over 5,000 businesses between Q4 2019 and Q4 2021.[1] Though there are many factors that impact increasing vacancies such as e-commerce and a digital shift away from brick-and-mortar stores, rising commercial rent continues to play a leading role. For both small businesses and community-based organizations (CBOs) who compete within the same commercial leasing market, rising commercial rents translates to unsustainable operating costs. Advocates and elected officials have attempted to remedy this through policy—such as vacancy taxes and commercial rent stabilization—but these proposals have largely stalled while businesses continue struggling to remain open. And since more than half of New Yorkers are employed by small businesses, they are a critical asset in creating economic opportunities, especially in underserved communities.[2]

Nonprofit affordable housing developers have been critical in creating and preserving affordable housing and to some degree, non-residential spaces. Many of these organizations develop and steward mixed-use developments where commercial or community facility spaces—like senior centers and daycares—occupy the same building as housing. This report identifies challenges these mission driven developers encounter when seeking to finance and lease out commercial spaces, especially when their intent is to lease to small businesses and CBOs.

It is essential that New York City and New York State 1) preserve affordability in existing commercial space and 2) incentivize the creation of more affordable commercial spaces. The City must also take steps to assist and expand the role of nonprofit developers in preserving and creating affordable commercial spaces, while making it easier to lease to small businesses and CBOs. Outlined in this report are five policy recommendations—at both the City and State levels—that accomplish these core goals.

State of the Commercial Rental Market

A 2019 study by New York Department of City Planning identified “hot corridors,” neighborhoods which had both high commercial vacancy rates and rising rents. While it was believed then that rents and vacancies would decline as the market adjusted from unsustainable peaks, many areas saw mixed results.[3] Neighborhoods such as Bedford-Stuyvesant saw no decline in rents but continued to have a high vacancy rate.[4] A 2021 survey of small businesses nationwide showed that 46% of respondents with less than $100,000 in annual revenue were at least one month behind on rent. Among larger firms, 36% reported similar rent arrears.[5]

Rising rents—both residential and commercial—have been a major area of concern in New York City for decades. While mechanisms exist to help stem sharp residential rent increases and build below-market rate rental housing, similar mechanisms do not exist for commercial rents/spaces leaving them more vulnerable to market demands. Small businesses are impacted by this the most. A Fed Small Business Survey in late 2019 showed that only 44% of small businesses had access to bank funding within the last five years and relied instead on the owner’s personal funds and that of friends and family as a primary source of funding when experiencing cash flow problems.[6] This put many small businesses at a disadvantage when the U.S. Small Business Administration started the Paycheck Protection Program (PPP) during the pandemic shutdown as applications for funds were primarily accessed through banks. If businesses had no pre-established relationships with lenders, the application process was more challenging. This particularly impacted minority-owned businesses who are less likely to have credit access from a bank, and have lower approval rates for traditional loans, lines of credit, and pandemic relief.[7] PPP loan terms required that at least 60% of the funds be used to cover payroll costs in order to be fully forgiven. This restricted businesses from using significant amounts of PPP funds towards rent which may have been a more urgent expense for businesses seeking relief. While some grants were made available for small businesses, New York offered no direct commercial rent assistance for small businesses or CBOs in response to the pandemic.

Figure 1

Change in Commercial Rent by City Council District (2019–2020)

Rents increased

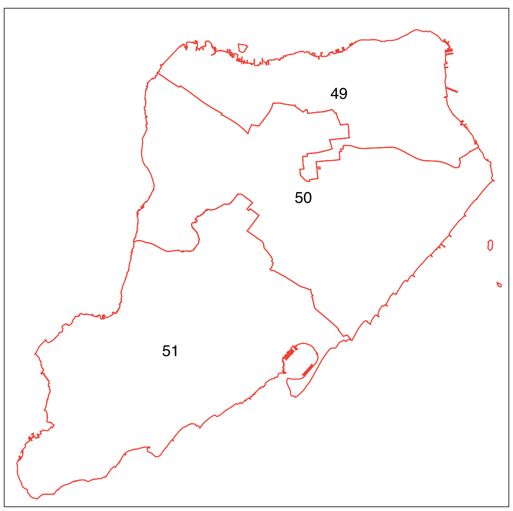
- 0–9.9%
- 10–24.9%
- 25% or more

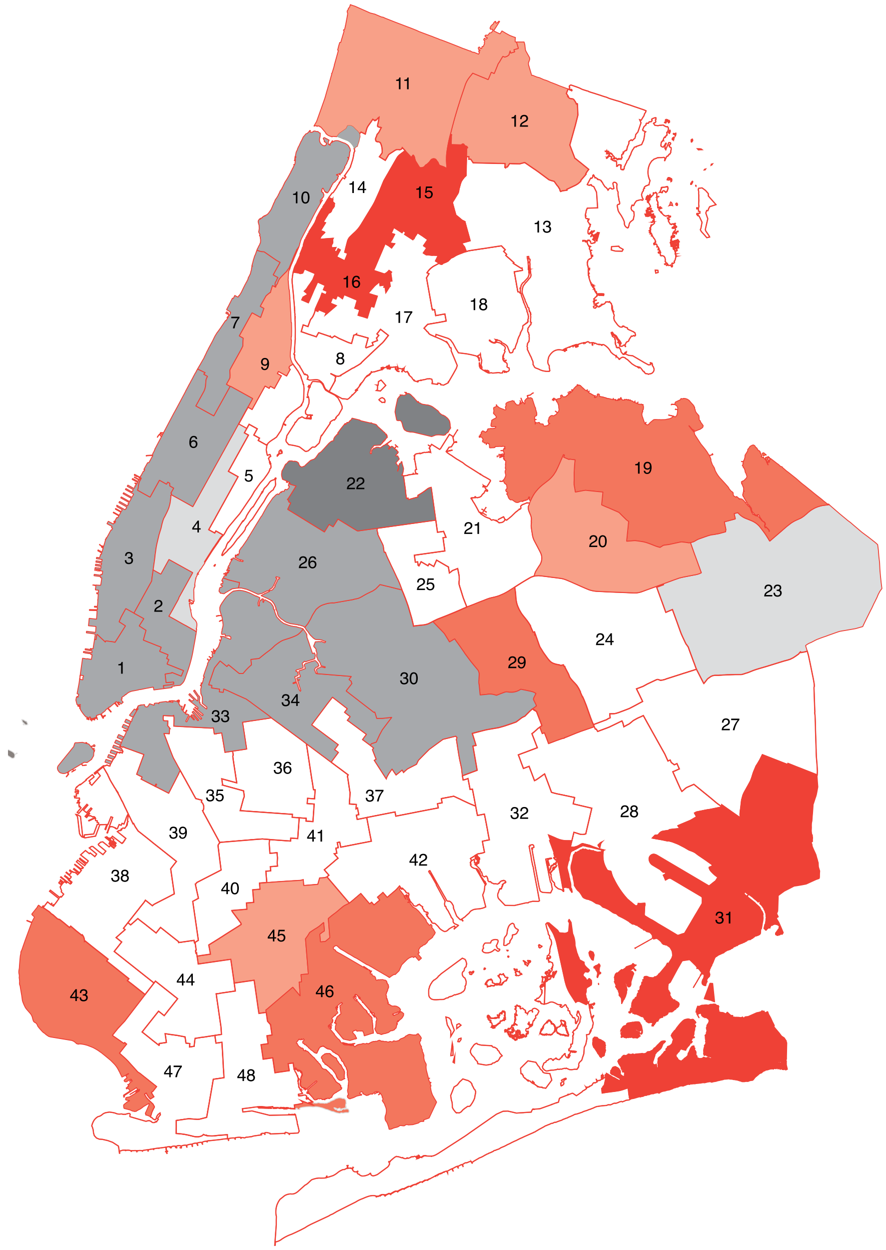
Rents were stable

Rents decreased

- 0-8.9%
- 9-17.9%
- 18% or more

SOURCE: NYC Dept. of Finance





Nonprofit community-based organizations are also impacted by rising commercial rents because they often compete with businesses for space. The strain felt by these groups from high rents has been compounded by the pandemic. Throughout New York State, human services organizations reported increased expenses related to the pandemic, yet most did not receive full reimbursement from pandemic relief programs. Half reported declines in revenues and nearly half sought loans or lines of credit to address gaps and late payments from government contracts.[8] Rising rents are having similar impacts in other cities. In a report released in 2020, 68% of Los Angeles nonprofits reported a rent increase for their space between 2013–2018. More than 40% of those organizations relocated to other spaces with half of those citing affordability as the cause. Most of the organizations surveyed serve low-income communities and communities of color.[9] Rising rents threaten the ability of community-based groups to remain in the communities they serve.

Nonprofit housing developers have played a significant role in developing affordable, mission-driven housing in New York City. While maximizing housing units remains a top priority for these organizations, creating mixed-use buildings that incorporate community facilities or retail space on the ground floor is increasingly common, and can help contribute to the local economy, generate revenue for the buildings, provide space for needed services within the community, and increase neighborhood safety by creating "eyes on the street." As affordable housing continues to be built largely in parts of New York City with larger Black and Latino populations, nonprofit developers are well positioned to ensure commercial space is available to small, minority-owned businesses within the communities they already serve. Small, local businesses increase the amount of money circulating within a community compared to national chain stores, helping to foster economic growth by creating local jobs and increasing investment in new businesses.[10]

3
FINDINGS

Pratt Center identified 117 nonprofit affordable housing organizations that have developed properties within New York City. Of these organizations, 44 have commercial or community facility space as part of their portfolio. The map on page 9 shows the distribution of these spaces across 402 buildings in the city.

Pratt Center interviewed a small cohort of these nonprofit developers as well as several consultants who work with nonprofit developers to learn more about the challenges involved in financing and leasing commercial spaces within mixed-use buildings.

Financing

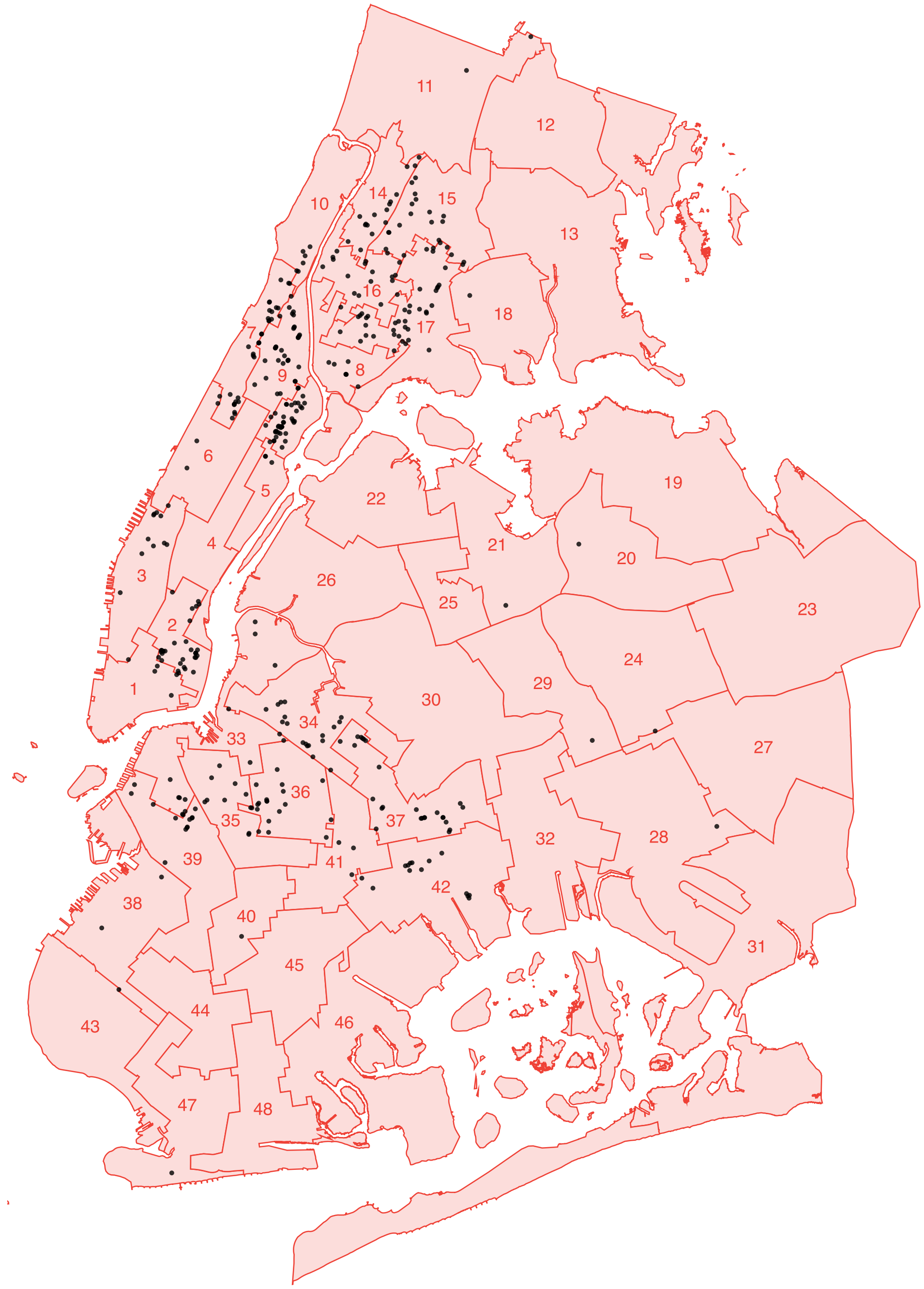
One significant challenge to developing commercial and community facility spaces within affordable housing developments is that widely used financing sources—such as Low Income Housing Tax Credits (LIHTC) and local subsidies through agencies such as the New York City Department of Housing Preservation and Development (HPD)—restrict developers' ability to use the funds for build-out of commercial and community facility space, leaving the the first tenants responsible for finishing the interior space. Including commercial space within a residential development may even result in reduced subsidy for the project, if lenders and City agencies wrongly assume that projected revenues from the commercial space can increase loan capacity and offset borrowing costs, thus discouraging leasing the spaces at lower rents.

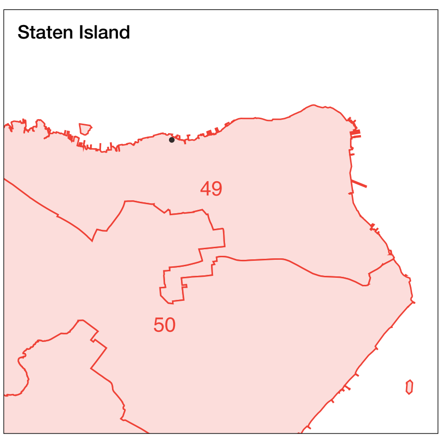
New Markets Tax Credits (NMTC)—created in 2000 to attract more investment to distressed communities—are utilized nationwide to finance mixed-use development, yet they are rarely used in affordable housing development in New York City. Deals involving NMTCs can be complicated and often require costly legal and consulting fees, making it a less attractive source of financing, and one that brings in less equity than LIHTCs. Additionally, NMTCs restrict the percentage of housing revenue that can be generated from a development, therefore requiring developers to rely on non-residential programming within the project to cover costs. This detracts from nonprofit developers' mission to develop affordable housing while pressuring them to generate more revenue from non-residential spaces. Taken together these conditions do not encourage nonprofit developers to favor small businesses.

Restricted financing for the development of commercial space is a challenge for both developers and small businesses. Newly built commercial spaces are generally delivered as a blank slate with basic plumbing and electrical connections but not much more. Tenants are responsible for completing build-out of the space, including additional plumbing, electrical, and other features needed to operate within the space. One nonprofit developer, currently in the process of leasing out space in a newly constructed building, noted challenges tenants faced as first time occupants. Build-out costs are nearly double what they would have encountered in previously tenanted spaces which likely would have had much of the plumbing and electrical work already completed. Many new businesses lack the credit history to borrow capital for space build-out from traditional banks or Community Development Financial Institutions (CDFI). Nonprofit developers are left to either contribute more of their own equity to cover these costs for tenants, or rent to more established businesses such as chain stores that can afford it.

Figure 2

Commercial Spaces in Nonprofit Owned Affordable Housing Developments by City Council District





Leasing

Identifying commercial tenants, especially small businesses, can also be a challenge for nonprofit developers. Commercial brokers may not be sufficiently tapped into the local community to identify small local businesses and CBOs seeking space. Barretto Bay Strategies—a NYC based consulting firm that works with nonprofit developers, small businesses, and CBOs—noted that nonprofit developers are imperfect clients for conventional commercial brokers. These brokers typically have longstanding relationships with traditional credit tenants who can maximize rental income rather than those who may serve a need or provide critical, but less tangible, benefits in the community but who cannot afford high rent.

Rent Arrears

While New York State provided rental assistance to residential tenants who fell into arrears during the COVID-19 pandemic, it provided no such assistance to commercial tenants. To this day, the pandemic continues to induce arrears for commercial tenants and the potential loss of revenue from vacancies threatens the maintenance of affordable housing created by nonprofit developers. On top of direct rental assistance, developers need funding for attorneys and additional staff to attend to persisting pandemic-related concerns. One nonprofit developer we spoke with is now in the process of hiring an asset manager who will focus solely on their commercial tenants' arrears.

4 RECOMMENDATIONS

While nonprofit developers are mission-driven, rental revenues are vital to ensure the long-term stability of their buildings. Placing too much restriction on their ability to set and adjust rent levels for commercial spaces, as with proposed commercial rent policy, could result in depleted building reserves and deferred maintenance on critical repairs. It is important that policies are flexible in preserving affordability and incentivizing lower rents for small businesses and CBOs while still allowing for nonprofit developers to generate revenues needed to sustain building operations.

The recommendations outlined here provide steps New York City and State could take to address these concerns. They outline a pathway—informed by successful case studies of successful economic development programs throughout the nation–that creates financial incentives for nonprofit developers and attends to the specialized needs of small businesses and CBOs.

1. Provide rental assistance to nonprofit developers still dealing with commercial rent arrears stemming from COVID-19

In order for nonprofit developers to remain stable, they need direct assistance for rent arrears with their commercial tenants. States such as Oregon used some of their allocation under the federal Coronavirus Aid, Relief, and Security Act (CARES) to support small businesses with grant funding to pay rent arrears in exchange for landlords forgiving outstanding penalties and interest and waiving any rights to evict.[11,12,13] Cities such as Pittsburgh, Pennsylvania and Akron, Ohio provided similar assistance but on a smaller scale.[14,15]

While New York State provided some grants and low-cost loans, none of it specifically addressed rent arrears or aimed at assisting nonprofit developers.[16] A recent audit of the zero-interest loan program showed these funds were not distributed equitably, with Manhattan receiving more than half of the funding despite the borough only having 41% of the city's small businesses.[17] The Bronx received the smallest percentage of this funding—only 2%—while having nearly 8% of the city's small businesses.[18] As nonprofit developers continue to deal with impacts from pandemic induced rent arrears, there is still an opportunity to develop more equitable, targeted grant funding to adequately support them.

CHESTNUT COMMONS

EAST NEW YORK, BROOKLYN

Image courtesy of Cypress Hills LDC

Nonprofit developers are well suited to develop mixed-use projects that are reflective of the local community's needs. Removing barriers to this type of development, such as allowing for project financing to cover the construction of non-residential spaces, can create community benefits and opportunities that extend beyond affordable housing. One such example is Chestnut Commons in East New York, Brooklyn.

The City of New York owned a large vacant parcel in East New York that was the site of a former water pumping facility. Cypress Hills Local Development Corporation (CHLDC) and the Mutual Housing Association of New York (MHANY) were awarded the site through an RFP process. In partnership with Urban Builders Collaborative, these groups built a 275-unit, 100% affordable building with a 34,000 square foot ground floor community center operated by CHLDC as well as three commercial storefronts. The project is the largest affordable housing development in New York City to achieve Passive House certification, which will keep energy costs low for tenants and reduce air and noise pollutants.

The City worked with CHLDC and MHANY on the financing to allow some funding to be used for the community center and storefront build out, thus minimizing the need for additional improvements by tenants. CHLDC raised additional funds for the center's furniture, fixtures, equipment, signage, IT, and AV.

The community center allowed CHLDC to consolidate most of their services into one space, freeing up storefronts they previously utilized for neighborhood businesses to rent. The Center also allowed CHLDC to offer more programming such as a satellite location for Kingsborough Community College, a job training center, a fitness center, and a commercial kitchen which allows home cooks to explore business opportunities and teach culinary skills. One of the commercial storefronts will be occupied by a branch of the Brooklyn Cooperative Federal Credit Union, which will bring additional banking and lending options to the community.

More flexible financing allowed CHLDC and MHANY to create a building that not only provides affordable housing, but also creates economic and educational opportunities for East New York.

Image courtesy of Cypress Hills LDC

2. Support small businesses and community-based organizations seeking space in affordable housing developments

Expanding funding for build-out costs through subsidies and grants would allow developers to offer more affordable rents and reduce start-up costs for businesses which may allow them to open more quickly.

In 2019, San Francisco, California launched Community Cornerstones, a grant program to help offset high build-out costs for CBOs seeking new or expanded space within 100% affordable housing developments.[19] In Oregon, Prosper Portland's Affordable Commercial Tenanting Program was created to address increasing commercial rents and vacancies throughout the city. Prioritizing businesses owned by underrepresented groups that provide critical services to the surrounding community, the program reduces barriers to entry for new businesses through reduced rent, funds to offset space build-out, and technical assistance. Hartford, Connecticut used some of their CARES funds to create Hartford Lift, a matching grant program that provides funds for new or existing commercial build-outs.[20] New York lacks similar programs to assist small businesses and nonprofits as they prepare to occupy newly rented spaces.

Meanwhile, other cities such as Chicago, Illinois and Boulder, Colorado created tax reduction and abatement incentives for commercial construction and rehabilitation.[21,22] As nonprofit developers in New York City pay property taxes on commercial space, tax reductions or abatements would incentivize developers to offer more affordable rents for small businesses.

Nonprofit developers with chronic vacancy issues within their commercial spaces will need more help to stem revenue loss while they find tenants. As a means to address main street blight, the City of Euclid, Ohio worked with property owners and signed a master lease on a number of vacant spaces.[23] Master leasing offers a tenant more control in how spaces are utilized and allows them to sublease to other tenants. The City of Euclid signed this master lease with the intent of subleasing to small businesses. They also created a subsidy so that the spaces could be rented at below market rates. While New York City does lease space from private owners for community facilities that are operated by community-based organizations, this model could be expanded with cross-agency collaboration and a specific eye towards subleasing commercial spaces to small businesses.

NYC HPD should work with Small Business Services (SBS) to master lease chronically vacant commercial space and assist the owners in identifying potential small businesses to occupy the vacant spaces. New York City offers residents a searchable online database of affordable housing developments that are currently accepting applications through the housing lottery. City agencies should collaborate to provide a similar tool for small businesses and community-based organizations in need of commercial space.

3. Support community-based ownership models

As real estate speculation and gentrification continue driving up property values, community ownership models have gained support as a means to ensure long-term land affordability while generating and keeping wealth within communities without displacing businesses and residents. Although Community Land Trusts (CLTs) are largely known in a housing context, this model is also used as a means to provide affordable commercial space for small businesses and give communities more control over how their local economy is shaped.

Groups in various cities have purchased both commercial and residential properties to enter them into land trusts—where either (1) the trust owns the land while the businesses and residents own the structures built on the land or (2) the trust owns both the land and its structures and rents out the structures. In the first scenario where the commercial spaces are sold to businesses, there is an added benefit to the business as their build-out costs, rather than being sunk, become equity invested in the ownership of their space. In the second scenario, there are often terms in the rental agreement that give the CLT authority to negotiate and make concessions to help stabilize businesses and keep occupants in their spaces, such as covering rent and fee arrears.[24]

A recent Local Initiatives Support Corporation report exploring models for community ownership found that the success of CLTs relied largely on access to private funding because of the limited financing available for acquiring and improving commercial properties.[25] The report also notes four important actions for community ownership models' stability and growth: 1) ensuring the community is involved directly in the management of the trust through board representation, 2) planning with the community to identify how the property should be used, 3) performing market studies to determine realistic rents, and 4) stabilizing the small businesses within the trust by providing technical assistance.

In New York City, nonprofit developers have played a leading role in efforts to create Community Land Trusts and are well-positioned to incorporate more commercial property into these trusts. There are a number of bills and advocacy items at both the City and State levels that would enable Community Land Trusts to acquire private property and deliver funding for such acquisitions, provided that the proposed uses—whether affordable housing, open space or commercial space—would benefit communities. See "Strategies for Supporting Community-Based Ownership" on page 13.

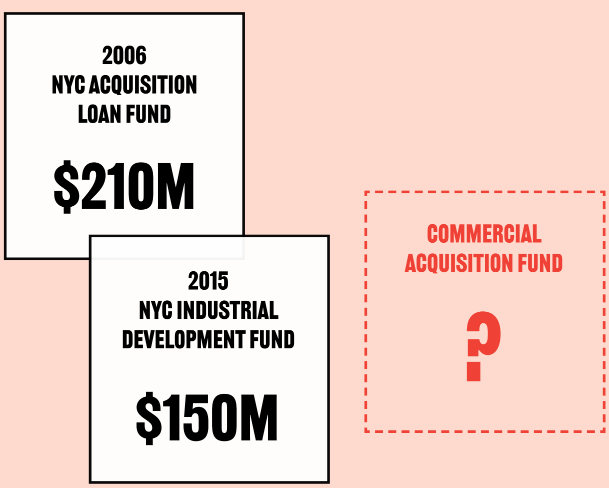
STRATEGIES FOR SUPPORTING COMMUNITY-BASED OWNERSHIP

LAND BANKS

Historically, distressed properties in New York City have been subject to lien sales—wherein property tax and water bill debts are sold for cents on the dollar—allowing lien purchasers to collect fees on money owed by the owners and to threaten repossession of the property. The lien sale program expired in 2021 and has not been renewed. There are calls to permanently abolish lien sales and replace them with a more equitable system, such as a land bank, that can acquire and temporarily hold properties to transfer to Community Land Trusts, thereby ensuring they are used for public benefit.[26] A land bank bill was introduced in 2018 by former Councilmember Brad Lander, and reintroduced in 2022 by Councilmember Gale Brewer with renewed support.[27]

OPPORTUNITY TO PURCHASE

Legislation at the City Council level known as the Community Opportunity to Purchase Act would give CLTs and mission-driven nonprofits the first chance to purchase properties for purposes of preserving affordable housing.[28] At the State level, legislation known as Tenant Opportunity to Purchase Act would give residential tenants first chance to purchase their buildings and match outside offers when their current landlord puts the property on the market.[29] In cities like San Francisco, California and Washington, D.C. this type of legislation better positions CLTs and other nonprofits to purchase land that may otherwise be snapped up by private equity speculators.[30,31] Subsequent legislation in New York should ensure similar pathways for tenants, CLTs and nonprofits to purchase commercial properties.



FUNDING

An acquisition fund would provide CLTs with the capital they need to purchase commercial properties when they are placed on the market. Acquisition funds for residential and industrial properties already exist in NYC. The $210 million dollar New York City Acquisition Loan Fund, which was created in partnership with Local Initiatives Support Corporation and Enterprise Community Partners, has resulted in $533 million dollars invested in the city and over 14,000 units of affordable housing preserved or developed.[32] The Industrial Development Loan Fund launched by NYC EDC in 2017 is a combination of public and private funds amounting to $150 million in grants and loans to support nonprofit or mission-oriented industrial developers.[33] A similar acquisition fund for CLTs would allow them to mobilize when land or buildings become available for purchase. Cities such as Minneapolis, Minnesota, Washington, D.C., and San Francisco, California have established funds to support community ownership of commercial space.[34,35,36] Funding at the city and state level should be made available for the acquisition of commercial properties by CLTs for the purpose of preserving and providing affordable commercial spaces.

COMPARING SAN FRANCISCO & NEW YORK

(Left) Rendering of the West Bay Center in San Francisco, which broke ground in September 2022. Image credit: Solomon Cordwell Buenz; (Below) The Roosevelt Shopping Center at 84-02 Roosevelt Ave. in Queens. Image: Google

In San Francisco, a Nonprofit Sustainability Initiative led by the City's Office of Economic and Workforce Development operates the Acquisition Fund which awards grants for acquisition or long term leases of commercial real estate. The initiative also provides lease stabilization grants to organizations that provide direct services to low-income communities within San Francisco County. Since 2017, the initiative has awarded $15.4 million in Acquisition funding and lease stabilization grants to support the acquisition of 178,047 square feet of new, permanent nonprofit-owned space and over 273,272 square feet of high-quality leased facilities.

One project that benefited from San Francisco's fund is the West Bay Pilipino Multi-Service Center, a 50-year old community service organization which secured $5,650,000 to acquire and rehabilitate 150 7th Street in the South of Market neighborhood. The acquired building will quadruple West Bay's operating space, allowing them to increase their own program offerings while also leasing portions of the space to a longstanding restaurant. The new community center (see rendering above) will also contribute to the footprint of SoMA Pilipinas, San Francisco's Filipino Cultural Heritage District.[37]

In Jackson Heights, Queens, rising rents have been threatening to displace longtime residents and businesses, many of which serve the neighborhood's Filipino, Indian, Bangladeshi, Tibetan, Nepali, and Latino communities.

To address these displacement pressures, Chhaya CDC—whose mission is to build the power, housing stability, and economic well-being of New York City's South Asian and Indo-Caribbean communities—reached out to local business owners to organize and work through ways to protect and support their businesses. During one meeting, a business owner expressed a desire to own the building they operated in, which eventually led the group to ask, "What if we all owned these buildings?" Chhaya staff continued exploring this question, and eventually identified a building in the area that had been vacant for nearly a decade save for a popular restaurant on the edge of the property. The building located at 84-02 Roosevelt Ave had formerly been a mini-mall and contained multiple corridors and stalls which could accommodate several small businesses under one roof. Chhaya's vision was to purchase the building under a land trust model, retaining community control and access while preserving affordable commercial rents.

Unfortunately, financing proved too daunting. With no existing public programs for commercial property acquisition, the only option for purchasing the property was by securing private loans. But the $10 million dollar asking price was out of reach for Chhaya. It was sold to a private developer and remains underused.

4. Provide technical assistance and legal support for small businesses

Ensuring commercial space affordability is important but must also be paired with access to financial, technical, and legal assistance to be most effective, especially for small businesses. Funding and technical assistance programs should prioritize commercial tenants within developments owned by nonprofit developers to ensure stability in revenue and viability and growth of the business tenants.

While Commercial tenants were included in New York State's moratorium on evictions, the moratorium lapsed in early 2022 leaving distressed tenants in desperate need of legal support. While residential eviction data is readily available and did show an increase in eviction filings after the moratorium was lifted, commercial eviction data is difficult to access. According to attorney Paula Z. Segal from Take Root Justice, commercial evictions typically occur informally, with businesses vacating properties before eviction proceedings begin. Legal assistance for small businesses in distress should be expanded to ensure business owners understand their rights and are able to make optimal decisions regarding their business and tenancy.

In 2017, New York City Council passed legislation that gives income-eligible residential tenants facing eviction the right to an attorney in housing court. Commercial tenants do not have similar rights. In 2018, NYC launched the Commercial Lease Assistance Program (CLAP), which provides small businesses with attorneys for negotiations and obtaining legal advice around their leases, but does not provide court representation. However, without any actual commercial rent regulation policy for commercial tenants, legal assistance can only go so far in assisting businesses in danger of eviction.

5. Provide more robust commercial real estate data in order to address concerns around displacement, vacancy, and rents

Data has been a powerful tool in housing preservation and advocacy. Rent arrears and evictions data, for example, has been useful in shaping housing policies that help prevent displacement. But when it comes to commercial properties, a lack of data makes it difficult to identify chronically vacant properties or financially distressed businesses that need assistance.

In 2019, New York City Council passed legislation that requires the NYC Department of Finance (DOF) to collect data from landlords on vacant ground floor and second floor storefronts on an annual basis.[38] Legislation in 2022 changed the reporting requirements from once a year to twice a year, which will provide a more current and accurate snapshot. However, additional information—such as the type of business that vacated their space, the length of their tenure within the space, and the amount of rent they paid—would be useful in developing policy that best serves businesses. In addition, access to commercial rent arrears data could reveal the need for assistance prior to eviction, as many tenants—both residential and commercial—will self-evict and vacate their space before a legal filing to evict.

5 CONCLUSION

Rising commercial rents and commercial space vacancies continue to be a challenge in New York City, stagnating economic development in neighborhoods that need opportunity the most. Policy and strategies implemented to preserve and create affordable, below market rate housing have had success and should be adapted to address rising commercial rents and ensure existing small businesses and community-based organizations can continue to serve their communities without risk of displacement. Addressing the challenges nonprofit developers encounter in developing and leasing commercial space and creating policy incentives for leasing to small businesses and community-based organizations will expand opportunities for new small businesses and more community services, promoting economic growth in areas that have largely been underserved.

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