Promoting the Social Real Estate for the Inclusive City

Myungshik Choi

Planning issues such as polarization of wealth and gentrification have not been effectively resolved by the current real estate development and management strategies, which are mainly guided by governments or markets, and as a result, the role of communities in acquiring and managing community assets has received more attention recently. Social real estate owned and operated by communities is expected to directly return social and economic benefits back to the community. This research attempts to promote social real estate for making cities more inclusive. In this sense, the necessity of managing and operating real estate in the community through shared ownership, and the successful cases and policies of social real estate, were explored. This research proposes a powerful public support exclusively for social real estate management startups as well as several short-term policy suggestions.
Promoting the Social Real Estate for the Inclusive City

Myungshik Choi
Dr. Myungshik Choi is an associate research fellow of the Housing & Land Research Division at the Korea Research Institute for Human Settlements (KRIHS).

He holds a Ph.D. in Urban and Regional Science from Texas A&M University. His areas of research interests are land and housing policy, gentrification, community development, commons, and shared equity homeownership.

His recent publications are as follows:
- The Concept and Success Factors of the Social Real Estate: Focused on the UK Cases, 2019, Journal of the Korean Urban Management Association
- Introducing Community Based Asset Management Organization to Inegrate Social Economy: Focused on the Social Real Estate Management Organization, 2018, KRIHS
- Research on Building Community-Based Real Estate Development Platform to Manage Gentrification, 2017, KRIHS
- Research on Shared-Ownership of Local Land Property to Manage Gentrification, 2016, KRIHS

Contents

Summary 04

Chapter I. Research Background and Purpose

Chapter II. Necessity and Concept of Social Real Estate
1. Realizing social value in the real estate sector 06
2. Sustainable community development 06
3. Overcoming the limitations of the public-led development 07
4. Concept of social real estate 09
5. Social Real Estate Management Organization 09

Chapter III. International and Domestic Cases related to Social Real Estate
1. Successful international cases of social real estate 10
2. Initial cases of social real estate in Korea 11

Chapter IV. Strategies to Promote Social Real Estate
1. Principles of promoting social real estate 15
2. Strategies to establish a shared ownership structure for local real estate 15
3. Establishment of an active startup ecosystem for social real estate 20
4. Promotion of resident investment and capacity building 23

Chapter V. Implications and Conclusion
1. Expected effects of introducing social real estate 24
2. Implications 26
3. Limitations and future directions 26

References 28
Planning issues such as polarization of wealth and gentrification have not been effectively resolved by the current real estate development and management strategies, which are mostly guided by governments or markets, and as a result, the role of communities in acquiring and managing community assets has received more attention recently. Social real estate owned and operated by the community is expected to directly return social and economic benefits back to the community. Social real estate also assists to empower the community and reinforce the locality based on the increased collective power from the various community members.

Given the facts, this research attempts to promote social real estate for making cities more inclusive. In this sense, this research explores the necessity of managing and operating real estate in the community through shared ownership, and the successful cases and policies of social real estate.

This research suggests a powerful public support exclusively for social real estate management startups by forming a fund of funds to finance them and nurturing accelerators to incubate them. In addition, the public sector, including the government and council, needs to reorganize rules and regulations to facilitate present and future crowdfunding and investment systems for social real estate management organizations.

To facilitate shared ownership of local real estate, an active and solid community is a prerequisite, as agents for social real estate can only arise based on the trust among residents accumulated through vibrant community activities. Moreover, it is important to expand the activities and roles of community-based social economic organizations in each community. In addition, community members need to experience the effects of creating a virtuous circle in which value produced in their community is consumed and reinvested within the community. Social real estate can spread out actively based on the accumulated experiences, through which residents can create community wealth together.

CHAPTER I.
Research Background and Purpose

1. Research Background and Purpose

Changes in the approaches to real estate development according to changing conditions such as low growth and population decline are taking place. As the importance of urban regeneration is emphasized along with changing conditions, approaches to real estate development are shifting from large-scale to small and medium-scale and from a development and supply-oriented approach to a focus on rental, management, and remodeling.

In addition, it is important to create a virtuous cycle in which profits from local real estate are shared within the community in order to cope with polarization of income and assets as well as gentrification which have been raised as social issues in recent years.

To construct such a structure, there needs to be community-based social real estate management organizations along with actors to operate them.

This study aims to provide suggestions for communities to jointly own, manage and operate local real estates to promote social real estate. Furthermore, this study intends to promote social real estate by encouraging startups who will run social real estate management organizations such as social economic organizations and by establishing an institutional basis for them to move into the real estate development and management sector.
CHAPTER II.

Necessity and Concept of Social Real Estate

1. Realizing social value in the real estate sector

Many Korean people have thought that real estate is a corrupted sector which encourages speculation. However, the real estate sector should become a sound field that can realize social values as it is closely related to the lives of the people. Therefore, we need to realize social value in the real estate sector and make a beneficial impact on the community. The social values that can be created through social real estate are as follows. First, social real estate has the effect of leading local actors to share profits among themselves through the shared ownership of local real estate, which can have a positive impact on mitigating polarization and the side effects of gentrification. Second, resident-led management of local real estate can promote the community-based social economy. Third, active communities can be formed through activities led by local residents, and the capability of residents can be increased by solving local problems themselves.

2. Sustainable community development

As social real estate is jointly owned by local residents and community-based actors, it is possible to establish a virtuous cycle in which profits from leasing property are reinvested in the community. In addition, this profit-sharing system established within the community promotes spatial inclusiveness, openness and accessibility, thereby increasing community resilience. In addition, social real estate management organizations based on communities mainly employ local residents and enable the profit generated from the community to be circulated within the community, for example, by contributing to job creation in the community as the organizations expand.

As a result, first, residents can contribute to the vitalization of communities as they benefit from the profit and their sense of belonging or pride in the community increases. Second, the spatial inclusiveness and openness of the community can be expanded. This is because real estates in consideration of social values (such as affordable housing and affordable commercial stores) are provided to the real estate market previously operated by market principles, enabling low-income and small merchants to also use the space. Third, community can develop with resiliency. Existing large-scaled, centralized, and commercialized real estate industry didn’t appropriately respond to the small- and medium-sized demands of local communities, then making community not resilient.

3. Overcoming the limitations of the public-led development

The public-led development contributed to solving housing shortage to a degree through large-scale land and housing supply, however, had limitations in consumer-centered and resident-centered development. In particular, top-down decision-making of the public sector could not reflect local residents’ thoughts in the development process. Such development method is not suitable for these times where large-scale development projects are declining and the emphasis on small- and medium-sized development and urban regeneration is increasing. In the past, the public-led development method has shown a limitation in establishing a supply plan that reflects local circumstances, and in some cases, oversupply of rental housing in certain areas caused local conflicts and distorted housing site supply and demand. Public enterprises such as the Land and Housing Corporation (LH) has been suffered from increasing debt due to the lack of development funds caused by reduced budget of government. The right amount of housing could not be supplied in the right place due to housing supply plan disconnected from demand, inaccurate housing demand forecast, and disconnection with urban planning. In other words, the public-led development has limitations as it is greatly inefficient for the public sector to own, lease and manage a large number of various real estate in each community and often creates a large gap with the actual situation of individual communities. Therefore, the real estate development trend is expected to shift gradually from mass supply to development based on consumer-centered and resident-centered development.
Chapter II. Necessity and Concept of Social Real Estate

4. Concept of social real estate

Social real estate, referring to real estate that is owned and managed by community, creates social values that contribute to public interests such as community capacity building, formation of local identity, and community development.

In Canada, this concept is referred to as ‘Social Purpose Real Estate’ which is defined as ‘property and facilities owned and operated by mission-based organizations and investors for the purpose of community benefit, and to achieve blended value returns.’ In the United Kingdom, ‘Community Asset’ is defined as ‘land and buildings owned or managed by community organizations.’

5. Social Real Estate Management Organization

A social real estate management organization refers to “an organization for leasing and managing real estate that community owns and controls autonomously.” Community becomes the owner and operator of real estate and acts as a social landlord, creating a foundation to support active activities of small and medium-sized enterprises (SMEs) and social economic organizations in the community. (See Table 1)

Table 1. Characteristics of a social real estate management organization

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Main content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>• Establishing the foundation for sustainable community development by shared ownership of local real estate • Role as a social landlord</td>
</tr>
<tr>
<td>Property</td>
<td>• Purchase, lease, trust • Not a traditional method of contracting public property out to private sector</td>
</tr>
<tr>
<td>acquisition</td>
<td>Targeted real estate</td>
</tr>
<tr>
<td>method</td>
<td>Organization type</td>
</tr>
<tr>
<td>Financing</td>
<td>Role as a social landlord</td>
</tr>
<tr>
<td>Operation</td>
<td>• Public support (government sector): Establishing a fund of funds by the Ministry of Land, Infrastructure and Transport</td>
</tr>
<tr>
<td>Use of profit</td>
<td>• Social finance (private sector): Social Investment Fund, Corporate Social Responsibility (CSR), Angel Investment, Community Development Financial Institutions (CDFIs), etc.</td>
</tr>
<tr>
<td>Real estate</td>
<td>• Community investment (community sector): Utilizing crowdfunding platform, Community Shares, etc.</td>
</tr>
<tr>
<td>ownership</td>
<td>• Community ownership: Building a system where local residents become owners</td>
</tr>
</tbody>
</table>

Source: Myungshik Choi et al. 2018

In recent years, new approaches to development have been emerging that take advantage of the social economy while being public-led. However, these projects also have difficulty in supplying in the right place at the right time and have a concern of social economy, creating social values that contribute to public interests such as community capacity building, formation of local identity, and community development.

While recent changes utilize social economy, they still involve government-led approaches to community development, suggesting a need to switch to “community-led development (community development 2.0)” in the future (Figure 1).

Figure 1. Direction of changes in the approaches to community development

Source: Myungshik Choi et al. 2018

Community development

1.0

Government-led

- Focusing on large-scale new development
- Strongly government-led
- Uniform approaches to development

2.0

Community-led

- Focusing on small and medium-scale community regeneration
- Consumer-centric
- Diverse approaches to development

(Government-led, Utilizing social economy)

1.5

On suitability, from central government-led supply to expansion of local government and private participation, and from development by full expropriation to diversification of development type (Soo Choi et al. 2014, 103-108). Therefore, community-based small and medium-sized developers and leasing managers who are sensitive to local demand are needed in this new trend.

While recent changes utilize social economy, they still involve government-led approaches to community development, suggesting a need to switch to “community-led development (community development 2.0)” in the future (See Figure 1).
CHAPTER III.
International and Domestic Cases related to Social Real Estate

1. Successful international cases of social real estate

North East Investment Cooperative is the first commercial real estate investment cooperative in the United States to succeed with the investment of local residents.

The formation of the New York Estate Investment Cooperative (NYCEIC) in 2015 was inspired by the case of NEIC (Myungshik Choi et al., 2016: 106).

In 2012, around 90 residents of North East Minneapolis, Minnesota, invested $1,000 each in shares to purchase three empty stores and started to operate them as a bicycle shop, a bakery, and a local pub. This case has been showing successful results where the shares invested by residents achieved a return of over 4% for three consecutive years, including 4.17% in 2015 and 4.96% in 2017 with continuous dividend profits and the number of members increased to 276 in 2017.

Meanwhile, Artspeak Gallery Society, a Canadian non-profit organization founded in 1986, is purchasing and operating cultural and art spaces as sustainable spaces for the community. The organization switched their loan to a stable mortgage and completed the repayment in 2016 with the help of the Vancouver Foundation in the initial stage, and the Vancouver City Government and local credit unions in the purchase and operation stage. The Social Purpose Real Estate Collaborative is trying to create and deliver tools (financial and non-financial) that will support the development of, and investment in, social purpose real estate, and to provide more sustainable opportunities for leasing and renting, and to increase the number of community-owned assets and shared spaces.

2. Initial cases of social real estate in Korea

BUILD Co., Ltd, a social venture and preliminary social enterprise based on Wolgot-dong, Sheung si, Gyeonggi-do, has been securing and operating social real estate in cooperation with Siheung City. BUILD operates community programs to revitalize the declining Wolgot community where a lot of children and mothers reside in, provides the spaces needed by the local community, and promotes the formation of social real estate with local residents.

BUILD runs a gathering of local mothers called ‘Wolhawsu (Wolgot mothers’ brilliant Wednesdays)’ as well as local stores for children and mothers. In particular, the third store (Kids Café) which opened by cooperation with the Siheung City Government through ‘Agreement for Siheung City Building Community Assets Pilot Project’ (December 27, 2017) is a representative case of forming social real estate in the long run and of cooperation with the public sector to acquire and operate the spaces.
Chapter III. International and Domestic Cases related to Social Real Estate

Table 2. Stores in Wolgot area operated by BUILD Co., Ltd

<table>
<thead>
<tr>
<th>Classification</th>
<th>First store: Baos &amp; Boba (Brunch restaurant)</th>
<th>Second store: Wolgot- dong Chaaehansongi (Book &amp; flower café)</th>
<th>Third store: Baiai (Café for moms and kids)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area (net)</td>
<td>287.2 m² (KRW 1,870,000 / month)</td>
<td>626 m² (KRW 3,520,000 / month)</td>
<td>178.4 m² (KRW 1,000,000 / month)</td>
</tr>
<tr>
<td>Initial cost</td>
<td>KRW 20,000,000 (including deposit of KRW 20,000,000)</td>
<td>KRW 165,000,000 (Deposit and premium of KRW 40,000,000 each)</td>
<td>Interior design KRW 180,000,000 (KRW 40,000,000: supported by Nanumgwamirae Corporation)</td>
</tr>
<tr>
<td>Sales</td>
<td>Average KRW 20,000,000 / month</td>
<td>Average KRW 20,000,000 / month</td>
<td>Expected Average KRW 20,000,000 / month</td>
</tr>
<tr>
<td>Characteristics</td>
<td>Operate as a café for selling books and flowers that can be enjoyed together in the neighborhood that previously did not have bookstores or flower shops</td>
<td>New Kids café concept (Children and parents can enjoy together through special plays)</td>
<td>Promoted as a ‘Building Community Assets Pilot Project’ of Siheung City Government</td>
</tr>
<tr>
<td>Note</td>
<td>Average 530 visits per month, repurchase rate of 25%</td>
<td>Monthly growth rate of 150%</td>
<td>Promoted as a ‘Building Community Assets Pilot Project’ of Siheung City Government</td>
</tr>
<tr>
<td>Achievements</td>
<td>• Promoted the creation of shared asset in the community starting from the third store through joint investment with local residents</td>
<td>• Reinvested the profit within the community (store expansion in the Wolgot area)</td>
<td>• Promoted a ‘Building Community Assets Pilot Project’ of Siheung City Government</td>
</tr>
<tr>
<td></td>
<td>• Operated community programs continuously (diverse activities and donations in the second store)</td>
<td>• Operated community programs continuously (diverse activities and donations in the second store)</td>
<td>• Promoted the creation of shared asset in the community starting from the third store through joint investment with local residents</td>
</tr>
</tbody>
</table>

A local regeneration startup called ‘Creation for Sharing, Co., Ltd’ carried out ‘Bongsan Village Building Community Assets Project’ in Yeongdo-gu, Busan. This company ran a resident college and supported the establishment of the ‘Wooriga Cooperative’ composed of local residents in Bongsan Village, a deteriorated area designated as an urban regeneration project site. The company created community assets by purchasing the reusable house among the empty and abandoned houses in the village and then selling them at a low price to the Wooriga Cooperative (November 2018).

Figure 3. Process of building community assets in Bongsan Village

![Image](https://blog.naver.com/mapotree)

**Figure 4. Project concept and plans of the Have It Together Cooperative**

1) In January 2018, three cooperatives based in Mapo-gu, Seoul called ‘Our Village Tree Shade Cooperative’ under the motto of ‘Happy Together, Have It Together’ (The three cooperatives have a total of around 1,200 members) formed ‘Have It Together Cooperative’ and received support from the ‘حوَلْتَ’ (Hadith) project.’ The project aimed to purchase buildings through investment from members, institutional and private investments, social loans, and fund support. The building will be used as not only the offices used by the Cooperative but also as space shared with the community such as mixed-use cultural and art space, co-working space, and open space.

A village company based in Mapo-gu, Seoul called ‘Our Village Tree Shade Cooperative’ is in the process of purchasing real estate through citizen investment to resist against gentrification. In early 2018, three cooperatives jointly formed ‘Have It Together Cooperative’, prepared a plan for the formation of social real estate, selected real estate to be purchased, and is in the process of raising net worth through recruiting coop members who need to invest.9) In the future, the Cooperative plans to purchase buildings through investment from members, institutional and private investments, social loans, and fund support. The building will be used as not only the offices used by the Cooperative but also as space shared with the community such as mixed-use cultural and art space, co-working space, and open space.

Figure 4. Project concept and plans of the Have It Together Cooperative

**Source**: Creation for Sharing, Co., Ltd., presentation material at City and Commons Forum 2018

**Source**: Our Village Tree Shade blog (https://blog.naver.com/mapotree)
A cultural planning organization based in Jeonju-si, Jeonbuk called ‘Art Planning Institute Art-Cluster Byeol-ui-byeol’ is trying to form social real estate to create a neighborhood without gentrification where people want to live. To this end, the institute is promoting a ‘Landlord with Pleasure’ project which involves jointly owning and operating buildings through citizen investment. The first project, the construction of Nosong Woodworking Shop, succeeded in attracting investment through BPLUS, an impact investment platform in Korea.

![Figure 5. Promotional material of the ‘Landlord with Pleasure’ project](https://benefitplus.kr/campaigns/101)

A youth-operated company that had run local bookstores and mixed-use cultural spaces in Daeheung-dong, Daejeon, called ‘City Traveller’, attempted building community assets through citizen investment, however, is currently financing through private loans in the face of institutional limitations. As the company got kicked out of the existing spaces due to rising rents, it aimed to provide space through ‘private-led building community assets’ where a large number of citizens make investment for a sustainable community. However, as non-corporations are not allowed to recruit share-type (stock-type) investments from unspecified individuals under current law, City Traveller gathered funding to purchase a community hostel building through a loan based on personal credit.

**CHAPTER IV. Strategies to Promote Social Real Estate**

1. **Principles of promoting social real estate**

   First, a shared ownership of community assets should be established for more equitable distribution of local profits and to form a virtuous cycle within community. Second, an active startup ecosystem for social real estate management organizations should be established to help emergence of community-based actors who give local residents more opportunities to develop autonomy and creativity. Third, it is necessary to derive active participation and interest of residents in community issues by promoting resident investment. Fourth, it is important to strengthen the community development capacity of residents so that they can develop capability to operate and manage local real estate.

2. **Strategies to establish a shared ownership structure for local real estate**

   1) **Prerequisites for shared ownership of local real estate**

      **Asset security**

      In order for residents to invest to a certain asset with confidence, the security of the asset must be guaranteed. To this end, the United Kingdom uses asset lock to prohibit the sale, lending, and mortgaging of community assets. In Korea, this can be applied as a way to secure the safety of assets by entrusting them to a real estate trust company (management trust).
Chapter IV. Strategies to Promote Social Real Estate

② Transparency in asset management

Transparent asset management is essential to get government support in addition to attracting investment from residents. Therefore, social real estate management organizations need institutional complementary measures such as securing transparency through mandatory accounting disclosures or mandating regular audits.

③ Representativeness of the managing agent (responsibility)

If a community-based social real estate management organization that manages local real estate community fails to represent the local residents, justification for the existence of organization and government support will be threatened through controversy over preferential treatment. Therefore, a certain number (majority) of resident investment can be an important indicator. When a large number of residents invest in local assets, they are more likely to be interested in and participate in the management of their assets as owners with partial ownership. Unlike general corporations, social real estate management organizations should allow residents to participate through democratic decision making of ‘one person, one vote’ regardless of the amount of investment.

2) Role of the public sector

Until now, the role of providing sustainable space to social economic organizations, social ventures and local small businesses has been the responsibility of individual renters (good landlords) with social purposes or the public sector directly supplying the space (long-term safe store). However, this mechanism had limitations in supplying space to meet local demand in the right place at the right time. As local real estate can be the basis for social economic organizations and local actors, the public sector needs to support the establishment of community-based real estate leasers with social purposes for creating a sound real estate ecosystem.

In the short term, social real estate management can be included in the key functions and roles of the Community Regeneration Corporations (CRC) of each community. CRC can preoccupy spaces for sustainable activities of urban regeneration actors in the urban regeneration area. In the medium and long term, it is important to build a support system for the establishment of social real estate management organizations. The public sector can directly become a social real estate accelerator or can support the emerging social real estate-related accelerators. Therefore, in order to encourage more social actors to play a role in managing local real estate, it is necessary to promote the establishment of social real estate management organizations through funding, human resources, and professional support in addition to revitalizing the social economy.
3) Structure of community wealth sharing

Social real estate management organizations create a structure that generates and shares profit in connection with the community. How this structure can be implemented by actors and stages can be explained by the following figure with an example of a social real estate management company (corporation) that develops, rents, and manages local commercial building.

Figure 7. Social real estate management company and local benefits

Source: Created by the author

Real estate owner who resides in the community entrusts his property to the social real estate management organization and get back the profit from its operation. Social enterprise that provide remodeling and construction services in the community generates profit through the remodeling business of local commercial building. Local small businesses, village enterprises, and youth startups can free from excessive rent and can continue business or activities without worrying about the side effects of gentrification by getting long-term lease of local spaces at low prices. Social economic organizations, neighborhood shops and local youth enterprises hire local residents preferentially, resulting in job creation in the community. This process is repeated in other projects, resulting in local profits being reinvested back into the community at each stage.

4) Social real estate management organization

The basic principles of a social real estate management organization are as follows.

① Democratic decision-making process: Is the organization made up of employees and directors, and does the organizational structure allow their free participation in decision-making process?

② Active resident participation: Are there many participating local residents and how open it is to participate in the decision-making process?

③ Making local profit: Do the profits generated by the social real estate management organization circulate within the community and create jobs in the community?

④ Social value creation: Are the objective of operating organization and the use of profit for the social benefit, that is, benefit of the community?

⑤ Authority for asset management: Does the organization have the exclusive right to manage real estate?

Considering the purpose, role, and characteristics of social real estate management organizations, the following three forms are possible when founding or establishing such organization, and founders can choose the form that works best depending on the strengths and weaknesses of each type.

① For-profit type: In consideration of concerns regarding the over commercialization, the public sector should provide support after imposing certain duties and conditions on the companies or limited partnerships that can be recognized as social real estate management organizations.

② Hybrid type: The establishment of a cooperative for social real estate management requires public support to ease the procedures for establishing of organization. To overcome the exclusiveness of organizational membership, it is important to keep the door open for new membership by diversifying membership composition like the NEIC’s diverse share types(A, C, D types) or by varying the amount and terms of investment.

Promoting the Social Real Estate for the Inclusive City
### Chapter IV. Strategies to Promote Social Real Estate

3. Establishment of an active startup ecosystem for social real estate

In order for the emergence of agents who own and manage social real estate, it is important to promote social real estate startups such as social enterprises, social ventures, and companies founded by young entrepreneurs.

1) Importance of creating a startup ecosystem for social real estate

First, it is ideal that social real estate management organizations, which realizes social value and manages local real estate, is operated by local actors. Therefore, for the emergence of such actors, a wide range of new support should be made at a similar level while utilizing the existing policies and systems that support the establishment of SMEs and venture companies.

Second, creating a startup ecosystem is important because of the side effects of existing real estate startups such as Airbnb and WeWork. Exclusive real estate ownership and operation of these shared platforms are causing side effects such as monopoly of real estate value and disturbance of surrounding ecosystems. Therefore, given the social impact of the real estate industry, specific government-level support is required for the establishment of social real estate companies, which should be a target of startup promotion policy.

Third, startup support for social real estate companies has become necessary with the changing conditions. The real estate industry has been excluded from venture investment and SME support until now to prevent speculation; however, the demand for deregulation of restricted industries has been spreading in the environment of increasing online real estate startup and convergence innovation. In other words, social real estate is needed to enable the emergence of creative and innovative real estate companies to solve social issues and have a public effect on society.

Fourth, creating a startup ecosystem for social real estate is important to overcome the limitations of existing startup support policies related to real estate and urban regeneration. These recently launched policies lack the implementation of values such as ‘local basis’, ‘social value’, ‘sharing’, and ‘democratic governance.’ In addition, there is insufficient linkage with existing policies on SMEs establishments and venture investment and a lack of diverse policy support such as creation of fund of funds, linkage of investment fund, and provision of tax benefits.

Fifth reason is because it is important to foster the actors who will promote the urban regeneration policy. In recent years, various social experiments are emerging spatially based in the forms of social venture, social enterprise and cooperative for urban regeneration, social housing, and co-working space creation and youth venture companies are growing in various fields of urban regeneration (Yoon Jousun and Park Sungnam, 2016). To build an ecosystem of government-level startup support, it is necessary to categorize and specialize the real estate business that owns, leases, and operates social real estate based on community by including the actors such as urban regeneration startups in the list for the startup support for SMEs and venture companies.

### Table 3. Comparison of pros and cons by type of social real estate management organization

<table>
<thead>
<tr>
<th>Type</th>
<th>For-profit</th>
<th>Hybrid</th>
<th>Non-profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation type</td>
<td>Company under commercial law</td>
<td>Cooperative under the Framework Act on Cooperatives</td>
<td>Social cooperative under the Framework Act on Cooperatives</td>
</tr>
<tr>
<td>Advantages</td>
<td>• Easy to establish organization</td>
<td>• Easy to establish a democratic decision-making structure</td>
<td>• Easy to improve reliability with the clearest social purpose</td>
</tr>
<tr>
<td></td>
<td>• Familiar organizational form</td>
<td>• Possible to share profit with members even with social purpose</td>
<td>• Easy to attract donation and sponsorship</td>
</tr>
<tr>
<td></td>
<td>• Possible to operate entity (limited partnership)</td>
<td>• Possible to attract investment</td>
<td>• Strong legitimacy for public support (allowed to use public land, etc.)</td>
</tr>
<tr>
<td>Disadvantages</td>
<td>• Demands decision-making structure and restrictions on profit sharing are inconsistent with the nature of a corporation (concerns about commercialization)</td>
<td>• Exclusiveness of membership</td>
<td>• Impossibility to attract investment</td>
</tr>
<tr>
<td></td>
<td>• Specific articles of association are necessary to realize social purpose</td>
<td>• Several requirements for establishing organization</td>
<td>• Several requirements for establishing organization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Difficult to attract resident participation due to the inability to share profit with members</td>
<td></td>
</tr>
</tbody>
</table>
2) Short-term plan: measures to improve the related legal system

Special exceptions should be made to support social real estate, which is currently not supported, by including it into the laws of supporting venture company and SMEs establishment. In other words, it is important to improve the system to enable active investment when establishing a local company or a social real estate management company in the form of social venture and youth enterprise, etc.

At the same time, social real estate business should be excluded from the crowdfunding restricted industries to enable smooth financing. Possible policies include adding and formulating content or guideline regarding social real estate management in the policy of Financial Services Commission, giving social real estate project-related crowdfunding investors tax benefits equivalent to angel investment, and providing matching funds from the Ministry of Land, Infrastructure and Transport (MOLIT) or supporting crowdfunding-related fees on funding success.

3) Mid- to long-term plan: Establishing a role of public sector as an accelerator

New support strategies should be added to the existing SMEs and venture startup support policies: Government support through establishing a fund for funds and relaxing restraints for crowdfunding to support social real estate management organizations.

First of all, MOLIT should provide institutional and financial support such as creating a fund of funds to support the establishment of social real estate management organizations. In particular, social real estate management business requires support such as exemption of the heavy property acquisition tax in the Seoul Metropolitan Area.

In addition, startup accelerating programs and accelerators are needed for the emergence of new real estate businesses that pursue social values. As social real estate is a new sector, groups of value-based startup accelerators must emerge to pursue social value, minimize the adverse effect of real estate business on the market, and create positive impacts on society. Since the real estate business doesn’t included in the startup support list of government and has not had accelerators until now, accelerators specializing in the social real estate business should be provided with additional support beyond existing benefits.

Lastly, appropriate support policies should be provided in parallel with the efforts to create an ecosystem through the introduction of a new corporate type suitable for social real estate management organizations, provision of guidelines for operation, and certifying the organizations.

4. Promotion of resident investment and capacity building

In order to promote resident investment, it is important to prepare a platform where residents can invest easily as well as provide legal and institutional support. First, ‘corporate or cooperative operating social real estate management business’ should be added to the list of entities that can utilize security-type crowdfunding to promote a system to invite resident investment (Capital Market Act, Article 14-5). In the long-run, it is desirable for the public sector to play a role in brokering many small investors and organizations at low fees.

The following measures are necessary as residents generally lack expertise in purchasing, developing, operating, and managing real estate and in particular, have low self-financing capacity due to insufficient financing expertise. To strengthen the capacity of residents, first, the opportunities for resident participation in the decision making process of social real estate management organizations should be expanded and guidelines the establishment and operation of such organizations are required. Second, a variety of training and consulting programs for residents are needed and in particular, external funds such as social investment should be supported to help residents increasing their accountability. Third, the autonomy of the agents of social real estate should be guaranteed with an appropriate monitoring system in place.
CHAPTER V.
Implications and Conclusion

1. Expected effects of introducing social real estate

If principles of to social real estate are faithfully implemented, it will bring the following effects.

① Establishment of a shared ownership structure of local assets: More equitable distribution of local profits and establishment of a virtuous cycle in the community

② Establishment of an ecosystem for social real estate management startups: Local actors can easily emerge and increase the autonomy and creativity of residents

③ Promotion of resident investment: Attracting residents’ active participation and interest in local issues

④ Strengthening residents’ capacity for community development: Residents who participate in the organization can develop skills of local real estate operation and management

In addition, the following social values are expected to be created in the community.

• (Community improvement) Forming a virtuous cycle of local profit within the community through social real estate development

• (Community vitalization) Establishment of a foundation for actual resident participation through shared ownership

• (Social economy vitalization) Expansion of the role of social economic organizations and increase of startups

• (Job creation in real estate business) Job creation of to real estate asset management and leasing services

• (Healthy real estate market) Decrease of polarization in asset ownership and formation of a stable market

• (Better urban regeneration) Appropriate response to gentrification and securing the sustainability of public funds

The following table shows the outcome of introducing social real estate management organizations by stage.

<table>
<thead>
<tr>
<th>Table 4. Expected effects of establishing social real estate by stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stage</strong></td>
</tr>
<tr>
<td><strong>Method</strong></td>
</tr>
<tr>
<td><strong>Expected effects</strong></td>
</tr>
</tbody>
</table>

Source: Myungshik Choi et al. 2018
First, community ownership increases residents’ participation and interest in the community in the ownership stage, and in the financing stage, governance is created in the community through investments from private, public, and community. In the development stage, real estate development based on local demand is possible, and local businesses and social economic organizations are promoted and contribute to job creation. In the profit utilization stage, the profits from the use of local real estate are distributed more broadly and fairly to residents, creating a virtuous cycle in the community.

2. Implications

1) Making a good community is important

Since agents for social real estate can only be appeared based on the trust among residents accumulated through vibrant community activities, an active and solid community is a prerequisite for the shared ownership of local real estate. For this, it is important to expand the activities and roles of community-based social economic organizations in each locality.

2) The experience of community wealth building is needed

Community members need to experience the effect of creating a virtuous cycle in which value produced in their community is consumed and reinvested within the community. Social real estate can spread out actively based on the accumulated experiences that residents can create a community wealth together.

3. Limitations and future directions

The main obstacle to the introduction of social real estate management organizations is a lack of awareness for the necessity of the social real estate because of no experience for this new approach. In addition, a safeguard to protect resident investment and real estate must be established due to a risk of moral hazard of the organization’s manager such as social economic organization or the failure to attract sustainable operating fund. Therefore, the public sector needs to play an active role in disseminating the concept and success stories of social real estate through resident education and in providing guarantee or asset lock to create a safe investment environment. In addition, the public sector should ensure security of the asset through guaranteeing exit of resident investors by purchasing and selling it in case of the failure to operate social real estate.

In the future, it is important to make a support plan and monitor the direction of organizational activity and performance to foster social real estate management organizations. In parallel, further research is needed regarding the establishment of community ownership and the introduction of a stable and new corporate type suitable for social real estate management organizations.
References


Figures

Figure 1. Direction of changes in the approaches to community development 08
Figure 2. Before and after of a local pub bought and remodeled by the NEIC 10
Figure 3. Process of building community assets in Bongsan Village 13
Figure 4. Project concept and plans of the Have It Together Cooperative 13
Figure 5. Promotional material of the ‘Landlord with Pleasure’ project 14
Figure 6. Prerequisites for social real estate management 16
Figure 7. Social real estate management company and local benefits 18

Tables

Table 1. Characteristics of a social real estate management organization 09
Table 2. Stores in Wolgot area operated by BUILD Co., Ltd 12
Table 3. Comparison of pros and cons by type of social real estate management organization 20
Table 4. Expected effects of establishing social real estate by stage 25
Promoting the Social Real Estate for the Inclusive City

Myungshik Choi