Place-Based Impact Investing

Key Benefits, Lifecycles, and Opportunities

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CCM COMMUNITY CAPITAL MANAGEMENT

Place-based impact investments look to leverage capital for positive impact and inclusiveness for all.

Place-Based Investing

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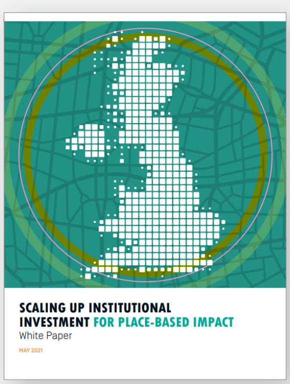
Introduction

Place-based impact investing refers to the local deployment of impact capital—that is, investments made with the intent to yield both financial and social and/or environmental returns—to address the needs of marginalized communities.[1] Place-based impact investing focuses on communities at risk of decline and those underserved by infrastructure, jobs, education, housing, and development. The practice of place-based impact investing focuses on how investments can be structured and directed to reach these underserved communities while generating a financial return and having positive impacts. The capital markets can play a vital role in tackling many deep-rooted environmental and social problems in communities nationwide.

Place-based impact investing can tap into the capital resources of an organization to complement and enhance the grant-making activities of its regional mission.[2]

Banks have been making place-based impact investments for years as a result of the Community Reinvestment Act (CRA), a law intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound banking operation.Today, you will find many place-based impact investors, including foundations, religious organizations, and high-net-worth investors. Community foundations have been particularly interested in making place-based impact investments given their mission of improving the lives of people in a defined local geographic area. Redirecting even a small portion of an institution's investment portfolio to place-based impact investments could shift billions of dollars toward addressing economic and environmental disparities in local communities.[3]

This report shares details on some of the key benefits of place-based impact investing, the lifecycle of these investments, and opportunities across asset classes.



The Good Economy's white paper, "[Scaling-Up Institutional Investment for Place-based Impact](#)," with the Impact Investing Institute and Pensions for Purpose, focused on making the case for a portion of the trillions invested in the mainstream capital markets to be allocated to "place-based impact investing." Many institutional investors, including pension funds, rarely analyze their investments using a place-based lens. They routinely allocate capital across the global markets without questioning whether allocations closer to home might deliver comparable returns and diversification while benefiting the development needs of their own members' communities.[4]

Key Benefits of Place-Based Impact Investments

Place-based impact investing offers the chance to spotlight collaborative efforts that can result in better economics and better community outcomes. In some cases, a single project or targeted community may receive funding from one or multiple sources resulting in a multitude of local, community benefits, including job creation opportunities and neighborhood revitalization. While place-based investing provides many benefits, we've highlighted four below given their overall importance to communities and people nationwide.

The first is **affordable housing**. Decent and safe affordable housing is essential to community wealth building; it is the foundation for creating healthy and prosperous communities. Research has shown that the stability of decent affordable housing can have a profound effect on childhood development and health outcomes for families and individuals. Garth Rieman, director of housing advocacy and strategic initiatives at the National Council for State Housing Agencies, said it most powerfully, "Affordable housing is not only a roof over somebody's head. It allows kids to do better in school, for families to stay healthier, for workers to have shorter commutes."

Our 2021 report, "Addressing the Black Homeownership Gap in America," shares more details on the afford-able homeownership crisis.

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Today, there is a housing crisis across cities and communities in America. In a 2018 study from the National Low Income Housing Coalition, it found only 35 affordable units for every 100 extremely low-income households and 71% of low-income renters are severely burdened by housing cost.[5] And the problem is even more pronounced in minority neighborhoods. The gap between white and Black American homeownership is greater now than it was before the 1968 Fair Housing Act. In 1960, there was a 27-point gap between Black homeownership (38%) and white homeownership (65%); in 2019, there was a 30-point gap.

For decades, the American housing system has afforded affluent homeowners large benefits, middle class homeowners smaller benefits, and most renters, who are disproportionately poor and minority, very little. Many families living in underserved communities are renters, not homeowners. Substantial investments in affordable housing is critical and when place-based impact investing is effective, quality affordable housing can be a resulting benefit.

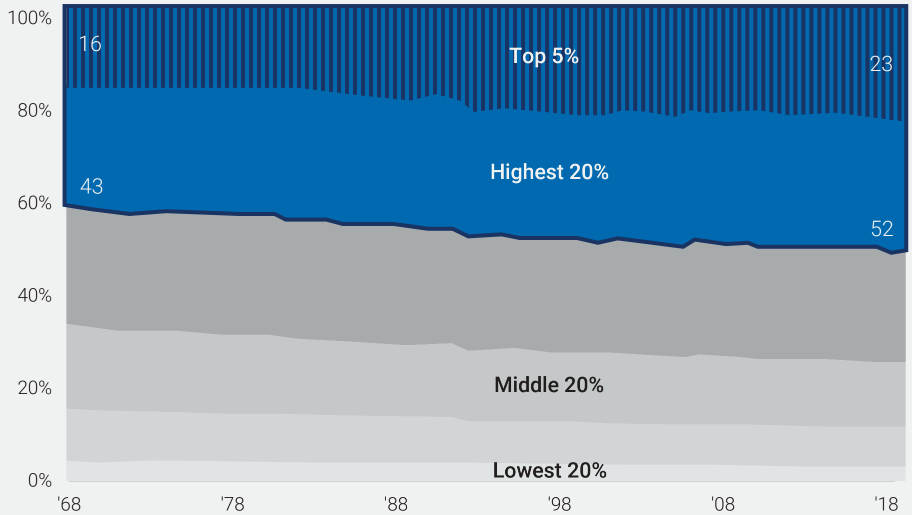
Economic Inclusion is one of CCM's 18 impact themes. We define it as: Assisting and supporting the process of bringing targeted groups, individuals, and communities, including immigrants and refugees, closer to the economic mainstream and capital markets. Examples of economic inclusion opportunities include financial literacy training, loans to first-time homebuyers, small business loans, rent-to-own housing programs, and "banking the unbanked" initiatives.

The second key benefit is **economic inclusion** where everyone participates and gains access to safe, affordable financial products and services, including LMI families, women, underserved minority communities, and immigrants. It is extremely important to improve conditions for underserved populations and promote economic participation that is inclusive.

Despite rapid economic growth, the U.S. has become more unequal over the past few decades. The income of the highest-earning 20% of households grew steadily while the wealth gap between the richest and poorest families doubled since 1989. This is even more true when it comes to racial inequality. The income gap between Black and white households has held steady since 1970, with average Black household income stuck at just 56% of white household income.[6]

The highest-earning 20% of families made more than half of all U.S. income in 2018

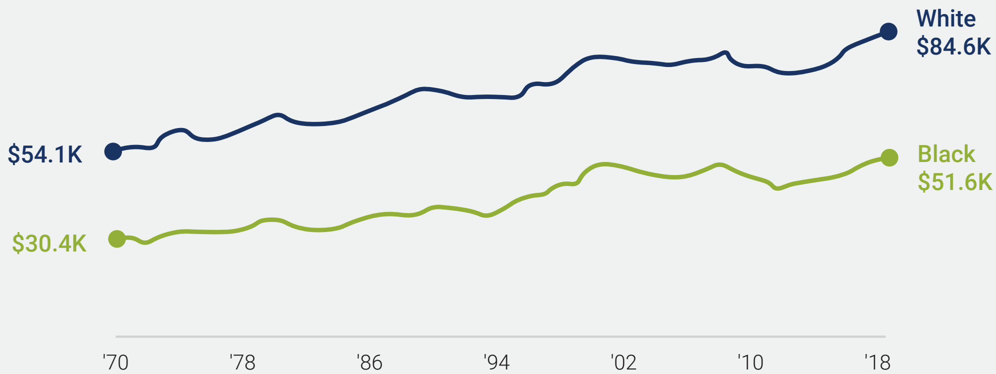
Share of U.S. aggregate income, by income quintile



Note: Figures may not all add up to 100% due to rounding.
Source: [Pew Research Center](), U.S. Census Bureau, Income and Poverty in the U.S.: 2018 Table A-4

In the U.S., Black-white income gap has held steady since 1970

Share of U.S. aggregate income, by income quintile



Note: Income is adjusted for household size and scaled to reflect a three-person household. Whites and Blacks include those who report being only one race and are non-Hispanic.
Source: [Pew Research Center](#) analysis of 1970 to 2019, Current Population Survey, Annual Social and Economic Supplements

When people are given a chance to succeed, they are more likely to participate in the workforce, pursue education, or engage in other activities that lead to economic growth, amongst other positive societal benefits.[7] This is why economic inclusion is so important and can be a key benefit from place-based impact investing.

The third key benefit is **community collaboration**. As place-based impact investors, it is important to collaborate with and support local anchor institutions. Investing in, or alongside, these institutions is an important aspect of intentional place-based investing to ensure local assets work to build local wealth and create jobs. Support of local anchor institutions and their initiatives, including non-profits, universities, and hospitals, play a vital role in helping their local communities and economies. These partners provide the initial commitment of time, funds, or other resources to get the initiative started or to provide proof of concept.[8] This can be for one-time projects or those over time.

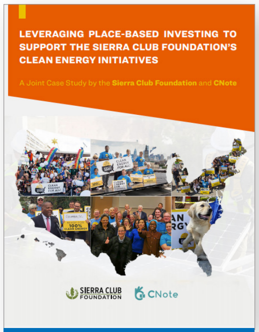
Examples of community collaboration include place-based impact investing networks, consortia, alliances, and platforms. There are seven elements of collaborative place-based impact investing, according to the report "Investing Together" from the Urban Institute. The seven elements reflect the more common factors that were present across models and within different collaborative initiatives that surfaced from the field scan in the report. They are not listed as prescriptions for new collaborative initiatives or to judge any existing initiative. Rather, the report highlights elements that may provide an operational framework to learn what works in collaborative place-based impact investing initiatives and why.[9]

Note: Authors' illustration based on content from interview analysis
Source: [Urban Institute](#)

The fourth key benefit is **environmental sustainability**. Place-based impact investing can help solve environmental challenges unique to a specific community, such as the need for renewable energy (solar power, etc.), clean water, clean air, and brownfield redevelopment.

For example, many communities across the U.S. have challenges with clean water. Most notable is the Flint, Michigan, water crisis. Investors can use their investment portfolios to help tackle local environmental sustainability challenges by providing capital to improve and foster clean neighborhoods where we live, work, and play.

Read the full report, "Leveraging Place-Based Investing to Support the Sierra Club Foundation's Clean Energy Initiatives"



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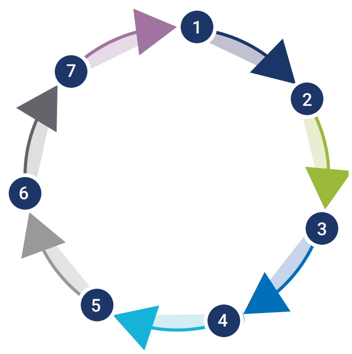
A joint case study by the Sierra Club Foundation and CNote, "Leveraging Place-Based Investing to Support the Sierra Club Foundation's Clean Energy Initiatives," provides an overview of how the Foundation looks for investment options with flexible liquidity that could support its existing programs, including its "Ready for 100" community-focused clean energy initiative.[10] For them, it was critical that investments align with current efforts to steward environmental initiatives across the country. In 2018, the foundation and its board began pursuing impact investing as a natural complement to their core mission and values. They were particularly interested in figuring out how their portfolio could help advance social justice outcomes as well as their core environmental objectives. They expressed an interest in targeted local investments as a way to channel dollars to the communities and initiatives that Sierra Club was already engaged in.[11] This case study is a great example of how an investor aligns its impact objectives, which included targeted communities *and* positively impacting the environment, with its investments.



The Lifecycles of Place-Based Impact Investments

While each place-based investment opportunity has unique characteristics, certain themes tend to repeat in the lifecycles and evolution of place-based impact investments and in the securities that end up in CCM's client portfolios.

Every stage of the revitalization process is dependent upon the others for success. Connecting the dots of place-based impact investing can help all participants work more efficiently and with a better understanding of the entire process. As one can well imagine, coordinating the financing from disparate and multiple sources can be challenging when it comes to ambitious projects such as the rehabilitation of multifamily housing developments in LMI urban neighborhoods. Capital sources may be siloed, making partnerships essential for projects in which costs can run to millions of dollars. It is testimony to the overarching environmental and social missions of impact investors that many of these ambitious projects come to fruition. Documented successes provide assurance that it can be done and the involvement of impact investors in the process helps contribute to successful outcomes.

1

First, the private or public sector funds builds a property for market-related use that is appropriate at time of construction.

2

Second, with the passage of time and changes in neighborhoods and local economies, a property's original purpose is no longer relevant or economically viable.

3

Third, subsequent neglect and sometimes abandonment creates an eyesore and/or safety hazard and contributes to decline in property values becoming part of a negative spiral for communities and residents.

4

Fourth, government planners and foundation-supported entities seek to craft a repurpose and rehabilitation strategy that will return the property to fuller use and be part of the overall revitalization goals.

5

Fifth, a winning plan emerges and the scramble to put together financing packages begins. Public agencies and/or foundations spend money to create an opportunity that will attract private capital.

6

Sixth, construction and rehab occur, frequently with grants, program-related investments (PRIs), or foundation support from non-profit partners; available subsidies are drawn, and a property is ready to return to the market with a new purpose. Banks and construction lenders typically play a role.

7

Seventh, a permanent financing takeout whereby a patient capital long-term investor will own a mortgage or similar investment instrument on the reincarnated property.

CCM tends to invest in the final stage as that is the best risk-adjusted match for our clients' investment objectives. Many of our clients, such as foundations and healthcare systems, are involved in earlier chapters with grants, PRIs, or in other ways.

Getting Started: Place-Based Impact Investing Across Asset Classes

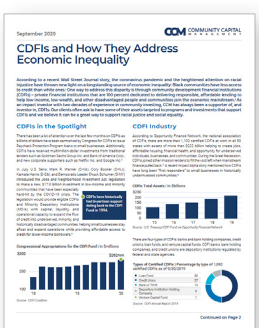
Various place-based impact investment opportunities can be found across different asset classes and risk/return spectrums. We have highlighted below three diverse asset classes in which investors can start to direct their capital toward positive environmental and social impacts in their local neighborhoods.

Three Diverse Asset Classes for Place-Based Investing

	Cash	Fixed Income	Real Assets
Description	Invests in cash and cash equivalents that support local communities and underserved populations	Invests in public and private debt securities that can be targeted to local and underserved communities	Invests in local infrastructure and real estate with positive environment and social impacts
Capital Preservation	High	High	Low to Moderate
Liquidity	High	High	Low
Volatility	Low	Low	Moderate to High
Return Potential	Low to Moderate	Low to Moderate	Moderate to High
Time Horizon	Moderate	Moderate	Long

Note: CCM created this chart to show an overview of the three asset classes listed and their approximate respective financial characteristics.

CDFIs have drawn attention over the last year as billions of dollars have been earmarked by Congress for CDFIs to issue Paycheck Protection Program loans to small businesses. Read more in our perspective, "CDFIs and How They Address Economic Inequality."



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Cash

Community Development Financial Institutions (CDFIs) have become one of the primary vehicles for investing cash *and* having a positive impact. CDFIs are private financial institutions dedicated to delivering responsible, affordable lending to help underserved people and communities join the economic mainstream.[12] CDFIs offer deep impact community investing opportunities across a range of themes and geographies in the U.S. CDFIs deliver social impact investments typically with near market returns that closely align with impact investors' values and commitment to improving their communities.[13] CDFIs finance community businesses, including small businesses, microenterprises, non-profit organizations, commercial real estate, and affordable housing.

Although CDFIs share a common mission of community development, their organizational structures and lending goals vary. There are four basic types of CDFIs: 1) banks, 2) credit unions, 3) loan funds, and 4) venture capital funds.[14]

CDFIs at a Glance

CDFI Type	For Profit?	Regulated?	Main Focus	Potential Impacts	Investment Tool
Bank	Yes	Yes	• Financial services • Home, business & consumer lending	• Local investment • Reaching the unbanked or underbanked	Cash deposit, CD
Credit Union	No	Yes			
Loan Fund	Usually no	No	• Microloans and small-business financing	• Local investment • Jobs/business creation, sometimes in targeted demographics	Term loans
			• Affordable housing finance	• Local investment • Home ownership for the economically disadvantaged • Affordable rentals • Targeted demographic focus	
			• Community facility financing	• Local investment • Buildings for childcare, schools, health centers, recreation, community	
Venture Capital Fund	Yes	Yes	• Equity financing for growth companies	• Sometimes local investment • Jobs/business creation	Equity share

Source: [Pathstone]

Fixed Income

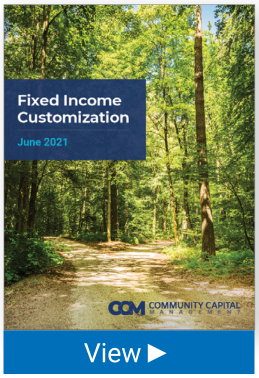
The fixed income asset class is well suited to have a range of market-rate returns and bespoke positive environmental and societal impacts. It can include local corporate bonds, local Small Business Administration (SBA) loans, local municipal bonds, and federal agency housing securities. In fact, private and publicly traded debt accounted for 38% of impact investment portfolios, according to the GIIN 2020 Annual Impact Investor survey, and both offer opportunities to finance local, positive outcomes.

Asset Allocations by Asset Class

Percent of full sample AUM	Percent of AUM*	Asset Class	Percent of respondents**
34%	**21%**	**Private debt**	58%
11%	19%	Public equity	17%
16%	17%	Private equity	70%
9%	17%	Real assets	17%
10%	**17%**	**Publicly traded debt**	15%
1%	1%	Equity-like debt	21%
0%	1%	Deposits & cash equivalents	14%
18%	8%	Other	15%

**Excluding outliners, n = 289, AUM = $221B USD **With any allocation to each asset class, n = 294, respondents may allocate to multiple asset classes*
Note: 'Other' includes guarantees, mezzanine financing, and social outcomes contracts.
Source: [GIIN, 2020 Annual Impact Investor Survey]

Within CCM's fixed income portfolios, customization offers investors the opportunity to direct their capital to support specific geographies. More information is available in this report.



In public fixed income securities, impact investments can be tied directly to local projects or initiatives supporting a variety of societal benefits, including affordable housing, environmental sustainability, job creation, education, and racial justice, to name a few. Some intermediaries measure, monitor, track, and report on the bonds in their portfolios along with the positive impacts to communities ***and*** where investments can be customized to specific geographies. These include mutual funds, separate accounts, and ETFs. Additionally, public securities offer daily pricing and liquidity and, in some cases, lower minimums than private debt.

On the flip side, private debt investments are not typically financed by a bank nor are traded or issued in open markets. Private debt can take many forms, including project or development finance to fund infrastructure and construction of environmentally sustainable initiatives, affordable housing developments, and healthcare facilities, many that may be in underserved communities. In terms of returns and volatility, private debt is often positioned as the asset class between public debt and private equity.[15]

Real Assets

Examples of place-based real estate investments can include liquid real estate investment trusts (REITs); private funds investing in residential, industrial, and commercial properties; and direct investments in new construction in underserved communities, to name a few.

Real assets offer investment opportunities ranging from single and multifamily homes, office spaces, and industrial spaces to community space and open space. Sustainable and mixed-use neighborhoods can develop with the tools of finance we have today and generate the multiplier effect of the positive impacts across the region.[16] Investing in place-based real estate can help maintain affordability of residential and commercial properties to create a more equitable local economy that supports health and well-being. It can also support the local economy through market-rate investments in community renewable energy projects and sustainably managed forests and farmland.[17]

Impact investors have long used place-based investing strategies to channel development money to projects in areas of the country that are currently underserved by traditional commercial development. Adding momentum to this trend, in 2017, Congress introduced tax incentives for investing in what are known as Opportunity Zones.[18]

Opportunity Zones

An Opportunity Zone is an economically distressed community where private investments, under certain conditions, may be eligible for capital gain tax incentives. Opportunity Zones were created under the 2017 Tax Cuts and Jobs Act, to stimulate economic development and job creation, by incentivizing long- term investments in low-income neighborhoods.[19]

In December 2020, The Brookings Institute published a brief, "A New Place-Based Federal Initiative for Empowering Local Real Estate Ownership," that discussed the challenge of advancing local empowerment and economic mobility through wealth-building. The brief suggests a different approach to inclusive neighborhood revitalization, proposing that the federal government partner with state and local governments to facilitate the local ownership of real estate in disinvested urban and rural commercial corridors, many of which the COVID-19 economic downturn has hit hard.[20] The brief suggests that the federal government should establish and capitalize state revolving loan funds that would provide direct seed funding to locally managed neighborhood investment funds that allow residents—together with other private, public, and non-profit sector investors—to purchase and develop or redevelop land or buildings in communities meeting recommended criteria.[21]

Looking at the interest level for impact investing real assets from 2015 to 2019, the GIIN Annual Impact Investor Survey 2020 showed this category having the second highest compound annual growth rate (CAGR) at 21% following impact investing public equities CAGR at 33%. We anticipate this continuing to grow even more over time as investors see the dual benefit of investing locally.

Changes in Asset Class Allocations Among Repeat Respondents: 2015-2019

n= 78, figures in USD Millions

Asset class	2015	2019	CAGR
Public equity	6,420	19,968	33%
Real assets	4,532	9,762	21%
Publicly traded debt	2,513	4,476	16%
Private debt	18,851	27,600	10%
Private equity	9,938	13,831	9%
Deposits & cash equivalents	1,204	1,148	-1%
Equity-like debt	4,355	1,294	-26%
Other	137	1,884	93%
Total	47,948	79,963	14%

Note: Excludes one large outlier that significantly grew allocations to publicly traded debt (including this respondent, allocations to publicly traded debt increased by 72% CAGR). The 2016 Survey included a category for 'pay-for-performance instruments,' which have been included in 'other' for this analysis.
Source: GIIN, 2020 Annual Impact Investor Survey

Some investors use The ImpactAssets 50, an annual showcase of impact investment fund managers, to find opportunities that align with their impact objectives and to see strategies across asset classes. In the real estate category, The ImpactAssets 50 currently lists 15 funds with the majority focused on the U.S. Their impact areas of focus include affordable housing and community development; clean technology, alternative energy, and climate change; education; and small/medium business development, to name a few. Many of these funds have investments targeted to regions around the country.[22]

Conclusion

Americans, especially younger generations, increasingly prioritize and support local economies. They buy food from local farms and purchase items from local small businesses. By supporting local industries and initiatives, communities can be more prosperous, connected, and generally better-off across a wide range of metrics.[23] We are arriving at a collective, and correct, conclusion that global and domestic problems need local solutions. Investing in place-based opportunities in our own backyards can offer investors appropriate risk-adjusted returns while positively impacting our communities to be better, greener, and more just.

The key benefits, lifecycles, opportunities, and potential solutions presented in this report are specific to the U.S. where we have a capital markets system that allows for private capital to be responsibly channeled to addressing public needs. Our complex, interconnected web of non-profit, advocacy, governmental, and philanthropic organizations can work together to solve the problems of local underinvestment. We believe we are at the dawn of an era in which local investing can become a priority for investors of all types and sizes.

About CCM

Community Capital Management, LLC (CCM) is an investment adviser registered with the Securities and Exchange Commission. Headquartered in Fort Lauderdale with employees in Boston, Charlotte, the New York City area, and Southern California, CCM was founded in 1998 and manages over $3.5 billion in assets. The firm believes a fully integrated portfolio – one that includes environmental, social, and governance (ESG) factors – can deliver strong financial performance while simultaneously having positive long-term economic and sustainable impact. CCM's strategies utilize an innovative approach to fixed income and equity investing by combining the positive outcomes of impact and ESG investing with rigorous financial analysis, an inherent focus on risk management, and transparent research. For more information, please visit: www.ccminvests.com.

1 *https://www.urban.org/policy-centers/research-action-lab/projects/place-based-impact-investing*
2 *https://devinthorpe.substack.com/p/model-place-based-impact-investing*
3 *https://hospitaltoolkits.org/investment/*
4 *https://thegoodeconomy.co.uk/reports/pbii*
5 *https://www.navigatehousing.com/nlihcs-the-gap-report-gives-us-the-numbers-on-housing-affordability/*
6 *https://sustainablebrands.com/read/finance-investment/impact-investing-grows-but-there-s-still-a-long-road-to-financial-inclusion*
7 *https://www.ebrd.com/what-we-do/projects-and-sectors/economic-inclusion.html#:~:text=Economic%20inclusion%20is%20therefore%20an,turn%2C%20strengthens%20the%20transition%20process*
8 *https://www.urban.org/sites/default/files/publication/98452/investing_together_emerging_approaches_in_collaborative_place-based_impact_investing_7.pdf*
9 *Ibid*
10 *https://www.sierraclub.org/ready-for-100*
11 *https://www.mycnote.com/resources/CNote_Sierra_Club_Foundation_Case_Study.pdf*
12 *https://ofn.org/CDFIs*
13 *Ibid*
14 *https://www.pathstone.com/app/uploads/2021/04/Investing-Cash-for-Impact_Pathstone.pdf*
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18 *https://www.theimpactivate.com/opportunity-zones-and-place-based-investing/*
19 *https://www.eda.gov/opportunity-zones/*
20 *https://www.brookings.edu/research/a-new-place-based-federal-initiative-for-empowering-local-real-estate-ownership/*
21 *Ibid*
22 *https://www.impactassets.org/*
23 *https://sustainableconnections.org/why-buy-local/*

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