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CAPITAL  
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*Revitalizing America*

# Place-Based Investing and the Role of the Impact Investor





# Table of Contents

Introduction.....	3
Place-Based Investing .....	4
The Life Cycle of Place-Based Investments and CCM's Role .....	5
CCM Place-Based Investing Examples .....	7
Via Verde.....	8
Congress Building .....	9
Hotel Oakland .....	10
Newberry Hall .....	11
Conclusion.....	12

*Community Capital Management, Inc. is a Florida-based investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. The securities identified and described herein are current holdings and for illustrative purposes. Their selection was based upon non-performance criteria, such as the security's social and/or environmental attributes. Past performance does not guarantee future results. Market conditions can vary widely over time and can result in a loss of portfolio value.*

## Introduction

According to the Center for the Study of Social Policy, research and experience shows that families do better when they live in strong and supportive communities. **In short, place matters.** Yet many communities face challenges of high poverty, unemployment, failing schools, and housing instability. Increasingly, funders and federal officials are focusing their investments on place-based efforts to improve outcomes for families.<sup>1</sup>

Some of these efforts have included urban renewal programs, loans and grants motivated by the Community Reinvestment Act (CRA), housing development through HOPE VI, Empowerment Zones, New Markets Tax Credit investments as well as foundation-led comprehensive community initiatives and local non-profit ventures. The most ambitious of these initiatives have aimed to concentrate multiple investments from public and private sources in both infrastructure and human capital in a single neighborhood.<sup>2</sup>



Place-based investment allows a focus on specific needs and opportunities while letting supporters provide funding from appropriate sources, such as but not limited to:

For foundations, **program-related investments (PRIs)** offer “a supplement to their existing grant programs when the circumstances of the request suggest an alternative form of financing, when the borrower has the potential for generating income to repay a loan, and as a last resort when an organization — in most cases a charitable nonprofit but occasionally a commercial

venture — has been unable to secure financing from traditional sources,”<sup>3</sup> according to the Foundation Center. Most often deployed for projects relating to housing development and other community investment ventures, PRIs have the additional benefit of offering recipients access to capital at lower rates than can be secured from a traditional lender.

For impact investors willing to accept below-market returns, **community development financial institutions (CDFIs)** provide credit and capital, as well as financial services, to underserved populations and communities. CDFIs are located in the areas they serve and are able to recognize and respond to the needs of their communities.

The **Low-Income Housing Tax Credit (LIHTC)** program, created by the US Department of Housing and Urban Development (HUD) in 1997, is a tax credit mechanism available to impact investors. Described by HUD as “the most important resource for creating affordable housing in the United States,” the LIHTC program gives allocating agencies “the equivalent of nearly \$8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation or new construction of rental housing targeted to lower-income households.”<sup>4</sup>

Established by Congress in 2000, the **New Markets Tax Credit Program (NMTC)** “attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their Federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs).”<sup>5</sup>

In addition to the investment opportunities outlined above, there exists for impact investors specific investment vehicles and intermediaries allowing for both fulfillment of place-based and financial returns. Community Capital Management (CCM) is one such manager, investing in market-rate fixed income impact investments since 1999.

<sup>1</sup><http://www.cssp.org/community/neighborhood-investment/place-based-initiatives>

<sup>2</sup>[http://www.frbsf.org/community-development/files/N\\_Cytron.pdf](http://www.frbsf.org/community-development/files/N_Cytron.pdf)

<sup>3</sup><http://grantspace.org/tools/knowledge-base/Grantmakers/pris>

<sup>4</sup><http://www.huduser.org/portal/datasets/lihtc.html>

<sup>5</sup>[http://www.cdfifund.gov/what\\_we\\_do/programs\\_id.asp?programID=5](http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5)



## Place-Based Investing

Place-based investing, which as the name implies is a site-specific subset of impact investing, is defined by Confluence Philanthropy as “committing capital to local businesses, financial institutions, infrastructure or nonprofits, with an expectation of financial return.”<sup>6</sup> It has quickly become a favored strategy among impact investors.

Place-based investors are commonly foundations, religious organizations, and high-net-worth investors seeking to meet their missions through alternatives to traditional philanthropy. Some public pension plans have a local investment goal, while others are considering adopting one.

While philanthropy remains an important component for foundations since they are required by law to provide at least 5% of their assets in grants every year,<sup>7</sup> impact investment strategies allow for greater flexibility as well as the potential for financial returns.

Place-based 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.

According to the Global Impact Investing Network (GIIN), impact investments are investments made into companies, organizations and funds with the intention to generate social and environmental impact alongside a financial return. They can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on the circumstances.

Either way, there are a multitude of local, community benefits that can be achieved as a result of place-based investing. These include but are not limited to: job creation, social mobility, revitalization, smart growth, affordable housing, small business development, education and so many more.



*There are a multitude of local, community benefits that can be achieved as a result of place-based investing such as, but not limited to: job creation, revitalization, smart growth and affordable housing.*

<sup>6</sup> [http://www.confluencephilanthropy.org/content/common/common.download\\_file.php?action\\_special=download\\_file&sid=3c86770e3cc479b8ff8b9e346762d97e&download\\_file\\_id=394392](http://www.confluencephilanthropy.org/content/common/common.download_file.php?action_special=download_file&sid=3c86770e3cc479b8ff8b9e346762d97e&download_file_id=394392)

<sup>7</sup> [http://www.mcf.org/publictrust/faq\\_payout](http://www.mcf.org/publictrust/faq_payout)

## The Life Cycle of Place-Based Investments and CCM's Role

While each place-based investment opportunity has unique characteristics, there are certain themes that tend to be repeated in the life cycles and evolution of the investments that end up in CCM's client portfolios:

- 1** **First**, the private or public sector funds and 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 create an eyesore, safety hazard and contribute to decline in property values and become 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 property to fuller use and be part of 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 for 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 will play a part.
- 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.

This is where CCM's role comes into play  
– the long-term patient capital.

Each of the revitalization stages is dependent upon the others for success. None can triumph unless all are involved and available.

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, especially foundations, are involved in earlier chapters with grants, PRIs or in other various ways.

Connecting the dots of place-based 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 such disparate and multiple sources can be challenging when it comes to such ambitious projects as the rehabilita-

tion of multifamily housing developments in low- and middle-income urban neighborhoods. Capital sources may be siloed and partnerships are essential for projects whose costs can run to millions of dollars.

It is testimony to the overarching social and environmental mission 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.

What follows on the next couple of pages are case studies of several urban housing redevelopment projects, along with their financing sources. CCM's role in each case study is as part of the long term patient capital takeout.

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# CCM Place-Based Investing Examples

## Via Verde, Bronx, New York

Located on the site of a brownfield in the South Bronx, Via Verde includes 222 mixed-income residential units, 7,500 square feet of retail and community space and 40,000 square feet of green roofs and other open space for residents. It achieved LEED Gold Certification from the U.S. Green Building Council for its innovative environmentally responsible design.<sup>8</sup>

The primary goal of the \$98.8 million project was to provide a mix of rental and homeownership opportunities for people at a range of income levels to encourage a mixed-income community. Another goal was addressing community health issues such as childhood asthma and obesity, attributable in part to the lack of opportunities for exercise and healthy eating.



Photo © David Sundberg/Esto. Architect: Dattner.

Via Verde was financed by grants, loans, tax credit, and other funding mechanisms from a total of 19 public, private, and nonprofit funding sources. The development was financed in two parts—the co-op portion and the rental portion. The 1.5-acre site was conveyed to the development team by the New York City Department of Housing Preservation and Development (HPD) for \$1 to help subsidize the affordability of the project.

Nearly \$32 million was required for development of 71 units of co-op housing that are designated for middle-income households. Construction was financed through taxable bonds from the New York City Housing Development Corporation (HDC)—which, during construction, were sustained in part by a JP Morgan Chase line of credit—along with subsidies from HDC, HPD, the Bronx borough president’s office, the New York City Council, the New York State Affordable Housing Corporation, and the New York State Energy Research and Development Authority (NYSERDA). For the co-op portion, the developer provided \$1.675 million in equity and an additional \$1.5 million in the form of a deferred developer fee, which was returned to the developer when permanent financing was secured.<sup>9</sup> The two developers on the original development team – Phipps House and Jonathan Rose Companies – were equal partners in the project. The two architects were Dattner Architects and Grimshaw Architects.

<sup>8</sup> <http://www.usgbc.org/projects/verde-green-way>

<sup>9</sup> <http://uli.org/case-study/uli-case-studies-via-verde/>



## Congress Building, Miami, Florida

The Congress Building is an historic Beaux Arts high-rise community located in the heart of downtown Miami. The Congress Building was added to the National Register of Historic Places on March 14, 1985 and is a locally identified historic site in the Downtown Miami Development of Regional Impact.<sup>10</sup> Originally built in 1923 as office space, the building was restored and converted to affordable apartments in 1998. During the rehabilitation, the lobby was fully restored to reveal the building's original wood beamed ceilings. The copper and bronze elevator doors and marble floors were also restored to their original condition.

The Congress Building is a Low Income Housing Tax Credit Property where 117 of the property's 128 residential units are used for low-income housing for a term of 50 years from the date the first residential unit is placed in service. At least two units are targeted and tailored for the elderly, handicapped, or disabled tenants. On-site tenant activities, financial counseling, educational courses, and job training are offered to residents. Financial incentives are also offered to qualified tenants wishing to move into homeownership in the form of a contribution of five percent of the tenant's net rent during the entire occupancy, with a vesting period of no longer than three years of continuous residence.

In 2016, Jamie Horwitz, chief marketing officer, visited the Congress Building and was given a tour of the building by the property manager. She mentioned that 100% of the units were being occupied by low-income tenants. At the visit, Jamie met with residents and saw the different types of apartments available including studios, one-bedroom, and three-bedroom units. The second floor of the building offers workout facilities, laundry facilities, and a community room where programs such as Welfare-to-Work are held. The property



is adjacent to the Miami-Dade Metromover providing residents easy access to points within downtown Miami and to other modes of transportation such as the Metrorail.<sup>11</sup>

<sup>10</sup> <http://www.historicpreservationmiami.com/pdfs/congress%20bldg.pdf>

<sup>11</sup> <http://www.miamidade.gov/transit/metromover.asp>

## Hotel Oakland, Oakland, California

Original construction of Hotel Oakland was completed in 1912. Designed as a luxury hotel (much of the hotel remains listed on the National Register of Historic Spaces), it has been described as “a prominent social center” during the decade that followed completion of original construction; among its guests were US Presidents Wilson, Coolidge and Hoover.<sup>12</sup>



Photo credit: Rachel Welles Photography

During the 1930s, the hotel fell into disrepair and was later used from 1943 to 1963 as a Veterans’ Administration hospital. For the next 15 years, it stood vacant. In 1978, it was purchased by a Boston-based developer who remodeled it into a housing project for the elderly. It remains in this use today.<sup>13</sup>

Currently, 100% of the 315 rental units are designated Section 8, with reduced rental costs according to the income of the renter. The hotel houses Asian Health Services, a community health center that offers primary health care services with 36 exam rooms and a dental clinic with 7 chairs. The center receives in excess of 100,000 patient visits per year.

The Hotel Oakland Computer Learning Center, a Housing and Urban Development (HUD) Neighborhood Network, is housed onsite and is one of the first computer centers in senior housing in the Bay Area. Neighborhood Networks is a community-based initiative created by HUD in 1995. Through innovative public/private partnerships, Neighborhood Networks establishes multiservice community learning centers that bring computer access and lifelong learning to low- and moderate-income residents living in HUD multifamily insured and assisted housing.



Photo credit: Oakland Public Library



Photo credit: Rachel Welles Photography

<sup>12</sup> [http://www.lincolnhighwayassoc.org/ca/traveler/2004-04/hotel\\_oakland.shtml](http://www.lincolnhighwayassoc.org/ca/traveler/2004-04/hotel_oakland.shtml)

<sup>13</sup> [https://localwiki.org/oakland/Hotel\\_Oakland](https://localwiki.org/oakland/Hotel_Oakland)



## Newberry Hall, Detroit, Michigan

Located across the street from the Detroit Medical Center, and originally constructed to provide housing for nurses, the renovated Newberry Hall Apartments consists of 28 market-rate residential units. The developers kept and rebuilt the original windows, including the leaded glass on the first floor. Many of the original bricks were recycled back into the building, often featuring stamps from the original manufacturer. The main lobby's wood paneling and coffered ceilings were also restored, creating a substantial 'wow factor' for everyone who walks through the building's front door.<sup>14</sup>

The \$8 million project was funded through federal and state historic and brownfield tax credits, issued by the US Department of Urban Housing and purchased by Comerica Bank.

The New Economy Initiative contributed \$2.5 million over two years to help leverage the estimated cost of \$34 million needed to revitalize the historic Sugar Hill Arts District, in which Newberry Hall is located. Additional funding was obtained from the City of Detroit, the Michigan State Housing Development Authority (MSHDA), Detroit Renaissance, Detroit Investment Fund (now Invest Detroit) and private lenders. Midtown Detroit, Inc. (MDI) has taken the lead in rehabil-

itating a number of properties in the District, not only for residences but for artist spaces as well. The entire district is on the National Register of Historic Places.<sup>15</sup>

Among the environmental benefits of the Newberry Hall rehabilitation is the installation of a geothermal well-field to provide renewable energy heating and cooling to the building. Other green features include energy star appliances, blown-in insulation, an ultra-energy-efficient elevator and sky lights.



Photo credit: Zachary and Associates, part of the development team of Newberry Hall Development LLC

<sup>14</sup> <http://www.modeldmedia.com/devnews/newberryhalldetroit121311.aspx>

<sup>15</sup> <http://midtowndetroitinc.org/what-we-do/community-development>



## Conclusion

Perhaps, in the best of all political systems, access to governmental assistance for such programs as those that helped finance the aforementioned properties/initiatives could be found in a single location, and not require hopscotching from agency to agency in order to find them. Furthermore, perhaps in the best of all economic systems, the idea that social and environmental mission should align with investment strategy would be a vision shared by all investors and not just those who describe themselves as sustainable or impact.

While we may not live in the best of all possible systems, the efforts put forth on behalf of the nation's least fortunate citizens are nothing less than Herculean. What was once crumbling testimony to the failure of the American dream has been demonstrated to offer a successful paradigm for true inclusiveness.

Investors who turn to CCM for their impact-based financial activities are part of a rejuvenation of society through the capital markets.

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