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A Matter of Main Streets

By Erin Mierzwa, Community Development Specialist

Main streets are where people go to shop, eat out, conduct their business, and meet their neighbors. In large, older cities such as Philadelphia, main streets are found in nearly every neighborhood. Main streets, also called commercial corridors, are being used as a neighborhood revitalization strategy in Philadelphia.

Mark Edwards, program director of the Philadelphia Local Initiatives Support Corporation (LISC), explained that “the performance of a commercial corridor is inextricably connected to the health and vitality of the surrounding neighborhood and the neighborhood’s ability to reach its full potential.” Community leaders have been working collaboratively to improve Philadelphia’s shopping districts and to improve the surrounding neighborhoods.

The William Penn Foundation (WPF) has

supported commercial corridor efforts, including the revitalization of Girard Avenue, LISC’s commercial corridor initiative, and corridor studies, for more than five years. Geraldine Wang, director of the environment and communities program at WPF, noted that corridors provide a gateway to the city and are an important part of the foundation’s overall regional and community development strategy. “Commercial, cultural, and recreational corridors,” Wang said, “are our town commons and arterials – highly visible public spaces that connect neighborhoods, residents, and visitors.”

In 2002, LISC began a commercial corridor initiative in Philadelphia to improve distressed corridors and their surrounding neighborhoods. LISC adopted the Main Street approach, a comprehensive commu-

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An architect’s rendering shows part of a 17-block, multiphase, transit-oriented revitalization project along 60th Street in West Philadelphia. The Partnership CDC has marketed the commercial corridor, helped businesses and residents to obtain resources, and is working with a private developer on renovations.



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Message from the Community Affairs Officer

In this issue of *Cascade* we write about community development efforts from the perspective of a banker, a builder, a funder, a community developer, and a resident. All of them are committed to reviving the cities or neighborhoods where they work or live by building and financing commercial corridors, retail, mixed-use, or residential projects.

Pam Woodell of Sovereign Bank talks about using new markets tax credits and the value of this new source of equity for community development projects. **Bill Streuver** talks about what it takes to redevelop an urban neighborhood. The **William Penn Foundation**, **LISC**, the **City of Philadelphia**, and the **Commonwealth of Pennsylvania** are all supporting commercial corridor revitalization, and we highlight three Philadelphia efforts to strengthen commercial strips. In the case of **AchieveAbility**, we write about rebuilding human capital.

While the newest efforts are always important, the big news over the past few months has been the implosion of the nation's largest subprime lenders. To many people this may simply be a market correction, and it is hard to feel sorry for the owners and investors who made lots of money and have now lost it.

But those of us in the community development business know this market correction has a human side – namely, the unsophisticated borrowers who believed the promises of mortgage brokers or subprime lenders. As foreclosure filings increase, it is clear that low- and moderate-income (LMI) communities will feel a substantial amount of pain. Ira Goldstein of The Reinvestment Fund has done a great deal of work on this issue in the past few years and recently detailed his findings in a book, *Lost Value*, released this month.

Ten years ago when LMI people and communities were the fastest growing segment of the mortgage market, we all felt pleased that lenders had finally figured out how to serve this market. We didn't understand then how bad it could get. As we use new markets tax credits and other tools to rebuild LMI communities, let's not forget that initial success does not necessarily mean success down the road. We have to understand what defines success and remember that constant vigilance is important to keep the successes we have achieved.



Community Affairs has published *Alternative Financial Service Providers and the Spatial Void Hypothesis*, a discussion paper written by Tony E. Smith of the University of Pennsylvania and Marvin M. Smith and John Wackes of the Federal Reserve Bank of Philadelphia.

The paper is on our website at www.philadelphiafed.org/ccca under Community Affairs publications. For paper copies, contact Jeri Cohen-Bauman at jeri.cohen-bauman@phil.frb.org.

Lender Shares Community Development Insights

Pamela M. Woodell is senior vice president of Sovereign Bank's tax credit investment division. The division, which is based in Reading, Pa., makes investments and community development loans for affordable housing or economic development. Woodell is responsible for the approval, negotiation, closing, and monitoring of low-income housing, new markets tax credits, and historic tax credit investments; commercial loan originations and approvals; and use of all Federal Home Loan Bank products.

Woodell joined Sovereign Bank in 1997 following positions with National Penn Bank as a commercial real estate lender specializing in community development lending and with Interfaith Community Development Corporation in Pottstown, Pa., as a program coordinator.

Can you share some insights about your approach to community development deals and ways to make them work?

It is important to have an attitude of "how can I make this project work, keeping to 'safety and soundness' " instead of "this project is too risky, too 'out of the box' for me." In other words, be a deal-maker, not a deal-killer.

Instead of just looking to the developer/owner as a guarantor, perhaps there are other things that might substitute. The nonprofit loans that my department has done rarely, if ever, have guarantees from the nonprofit. Some of the mitigating factors may include extra collateral, primarily real estate, and larger reserves.

Instead of requiring a mandatory 20 percent equity from the owners, we have in certain instances booked construction and permanent loans to nonprofits where:



Sovereign Bank is an investor in new markets tax credits and historic rehabilitation tax credits in the Boston (Mass.) Medical Center's BCD building, a former hospital ward built in 1864 that now contains the center's information technology department. Photo by Victor Rodriguez, William A. Berry and Son Inc.

- The nonprofit commits 10 percent equity, all of which is paid at construction loan closing.
- In construction financing, Sovereign's loan could be 90 percent of project costs, but the loan-to-value is no higher than 80 percent "as complete."
- Government grants are considered as developer's equity. The developer must have, at a minimum, 5 percent of its own funds in the deal.

What is Sovereign's experience as an investor and allocatee in new markets tax credit (NMTC) deals?

Sovereign began its experience with NMTCs by investing with third-party community development entities (CDEs). Sovereign has closed over \$101 million in NMTC projects through third-party CDEs. The internal rates of return and the return on assets were far above other community development investment deals at the time and continue to be so.

I have found the NMTC program to

be very flexible, allowing transactions of almost any complexity to be financed through the program so long as a substantial commercial piece is involved. When I first explored the program, I was reluctant to be involved because it seemed very convoluted. Once I worked on my first NMTC deal, I realized that it wasn't that difficult and was very easily tailored to various deals.

Since Sovereign received the CDFI Fund's approval in 2006 for \$94 million in allocation authority, the entire amount has been targeted to "live" deals, or transactions that were in our pipeline. Our CDE's focus is to buy Sovereign-originated community development loans that carry the nontraditional lending features required in the NMTC program. We have also received numerous unsolicited phone calls regarding whether we could participate in other transactions. As a result, we have a waiting list of deals. This pro-

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Urban Developer Reflects on Community Development Financing

Struever Bros. Eccles & Rouse (SBER) is a Baltimore-based real estate development and construction company that specializes in urban mixed-use development (some combination of residential, retail, commercial, and office use). Much of SBER's development also involves renovation of historic properties. In its 33-year history, SBER has completed or is developing projects that total more than 20 million square feet and \$8 billion in total investment costs.

SBER has been active in Baltimore, Boston, Nashville, Providence and West Warwick, R.I., Durham, N.C., Yonkers, N.Y., Frederick, Md., Washington, D.C., Wilmington, Del., and Harrisburg, Pa.

C. William Struever, partner, CEO and president of SBER, was a founder of SBER and led its transition from a small construction firm to a \$180 million business with 350 employees.¹

Keith Rolland interviewed Struever at SBER's offices in Baltimore.

What's your outlook on the future of cities?

It's a very hopeful time for cities because in recent years the marketplace has validated that they have a future. Substantial market segments of people really love what cities are all about and enjoy living, investing, working, and having fun in cities. The essentially urban dynamic of density and diversity creates more value in mixed-use projects. People will pay more to live in a condo or

for rent because they like having great restaurants, cafés, and grocery stores in their building or neighborhood. Businesses find it's easier to attract and retain talent.

One of the great opportunities in the urban economy is putting relics of our industrial past to new use. Here in Tide Point, there are over 1,400 people in office jobs.²

What is SBER's approach as an urban development firm?

We approach development in a comprehensive way from a collaborative perspective that is sensitive to our partners, end-users, and most importantly the community around us. Proper development not only changes environments; it also changes attitudes, beliefs, and people's lives.

We typically take a prominent role in school partnerships, team up with effective workforce development programs, and try to include affordable housing in our housing plans.³

Please share insights from SBER's work in mixed-use development.

The nature of urban downtowns is all about mixed use and diversity of product and customer. For us, no two projects are alike because we're trying to integrate into the authentic character and fabric of each city and neighborhood, creating an exciting mix of people, uses, and activity.

We're doing old buildings, and some-



C. William Struever

times new buildings, or a combination of both. We often mix uses in a single building with retail, offices, and housing. Our interest is multi-project mixed-use investments in a lively neighborhood environment. We might have a separate office building deal and a residential building deal, but the buildings are right next to each other. We're seeing a much greater flexibility in zoning and planning to encourage the mixing of uses.

The combination of daytime office workers with nighttime and weekend residents creates the critical mass essential to support a rich array of amenities, such as coffee shops and grocery stores, which make downtown a nicer and safer place to live, resulting in a more vibrant central business district.

¹ The late James W. Rouse, previously CEO of The Rouse Company and co-founder with his wife, Patricia, of the Enterprise Foundation (now known as Enterprise), was a member of SBER's advisory board. SBER has historically had a close relationship with Enterprise.

² SBER developed Tide Point after it bought a vacant Procter and Gamble factory on Baltimore's waterfront in 1998 and invested \$80 million in an office campus. In two subsequent developments in the area, SBER converted a vacant Coca Cola plant into the world headquarters for Phillips Seaford and converted a vacant lead paint factory into a health club and retail and office space.

³ In its school partnerships in Rhode Island, SBER is making cash contributions and in-kind donations of materials, equipment, technical expertise, and volunteer hours.

What has SBER learned about adaptive reuse?

Older buildings are competitive in the marketplace, but in many cases they're more expensive to rehab than to build new. We make deals work through public incentives such as historic tax credits, new markets tax credits, the Maryland enterprise zone property tax credit, and tax increment financing, which enables many local governments to invest in parks, streets, and transit, and create structured parking.

Historic buildings are adaptable for some uses, but not for others. If you have a building with a 120-foot-wide floorplate, it might make great office space, but it's probably not good for residential conversion. We redeveloped the historic National Brewery in Baltimore, a glorious building with magnificent views of the city with federal historic tax credits; unfortunately, part of the building had no windows, so we reused it as a self-storage facility.

What has your experience been in obtaining financing from financial institutions?

It's much easier today, compared to 10 to 20 years ago, to get mainstream equity and debt in urban properties. We're often working with the community development departments of banks such as the Bank of America, Sovereign, Wachovia, and Citibank.

We often are in "edge" neighborhoods where we're recreating an economy and there are no comparables and visible market demand, making it hard for the mainstream commercial real estate people to underwrite our deals.

While we see lots of interest and have great relationships with a num-

ber of the major banks in our market areas, I think that pricing still is prejudiced against community development. We pay on a net basis (once you net in the public incentives) more for community development than when we deal with the regular real estate people. Loan spreads and interest rates are much more competitive on mainstream loans. We have construction loans through the community development departments where we're paying 270-basis-point spreads; at the same time, the market for construction loans has 150-basis-point spreads.

We need to dispel the notion that community development is higher risk and work on the competitiveness of pricing while improving the efficiencies of deal closings. It will encourage more investment in distressed urban areas and provide an opportunity to give better product if we're getting higher loan to value and lower interest rate terms. Well-planned, well-executed mixed-use redevelopment has turned out to be

remarkably resilient in the market.

How can public and private leaders help reinvent cities?

Jim Rouse had a favorite saying: what ought to be can be, if you have the will to make it so. Cities have for so long been losing population, jobs, tax base, and wealth that city leaders have gotten into a scarcity mentality that is crippling. The future prosperity of cities is all about confidence, spirit, and bold leadership. We must have mayors, presidents of universities and other institutions, and business and community leaders realize their specific interests can be integrated into a grander, widely embracing vision for the community.

SBER developed the first stage of Ships Tavern Mews in Wilmington. How do you see the outlook for Wilmington?

We remain very excited about Wilmington's potential. When we first visited the city, it desperately needed a broader vision. Our mistake is that

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SBER converted a former Procter and Gamble soap factory, circa 1929, on a 15-acre site to a 400,000 square foot corporate office campus in a \$63 million redevelopment on the south Baltimore waterfront.



Does Subsidized Housing Investment Improve the Neighborhood?

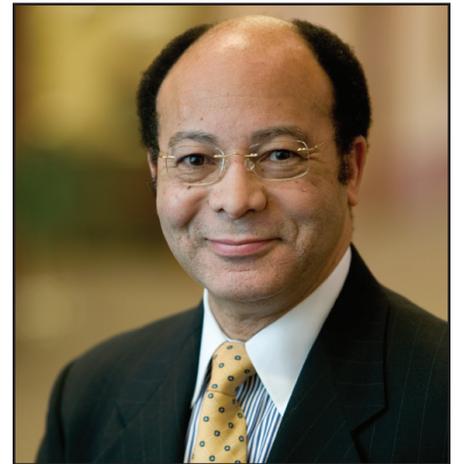
Housing investment plays a vital role in urban development efforts. Often this takes the form of subsidized housing. But much of the economics literature implies that the use of subsidies to develop housing is not an effective approach to compensate for shortcomings in the housing market or to create housing for low-income households. Yet this position is based on the majority of cost-benefit analyses of housing programs, which have focused solely on the benefits conveyed to the occupants of the subsidized housing. If, however, external benefits accrue to the neighborhood and are deemed economically important, then it could be argued that place-based housing investment by governments may well be a critical component of efficient housing markets. A study by Ellen Schwartz, Ingrid Gould Ellen, Ioan Voicu, and Michael Schill sheds some light on this issue by investigating the external effects associated with place-based subsidized housing.¹ The following is a summary of their analysis.

Background

The authors point out that housing investment can affect a neighborhood through the generation of several types of externalities. The two most obvious external effects come from removing a dilapidated building and by constructing a new attractive building on the site, both

of which may increase the value of surrounding property. Housing investment can also have an additional positive impact in a neighborhood through a “demonstration effect,” showing the viability of residential projects in the area and thus enticing other investors. Finally, an increase in population stemming from new housing investment in a neighborhood can create a “population growth effect” that could be advantageous to the area. In particular, new homeowners “may contribute to neighborhood stability by remaining in their homes for longer. Plus, they may have stronger economic incentives to maintain their homes properly and to become active in neighborhood organizations and political affairs.”

Earlier studies that examined the spillover effects of affordable housing have yielded mixed results. Two studies found that “newly developed public housing can have modest, positive impacts on neighboring property values,” while three others found “small negative effects, associated with certain types of federally-subsidized housing.” The authors note that even aside from any inconsistency in the results of these studies, they have data limitations that prevent them from identifying the direction of causality, namely, “whether subsidized sites are systematically located in weak/strong neighborhoods, or



Marvin M. Smith, Ph.D., Community Development Research Advisor

whether subsidized housing actually leads to neighborhood decline /improvement.”

More recent investigations have attempted to address the causality problem by using more geographically detailed data and adopting estimating models that “compare price changes of properties within a smaller area of newly developed housing to price changes citywide, while controlling for neighborhood (census tract) fixed effects.” While the authors acknowledge that this approach is an improvement, it would be preferable to make comparisons to price changes in the same neighborhood. Moreover, they note that previous studies did not explicitly incorporate varying distance from a project when assessing its overall impact, which might result in biased estimates of the true impacts. In other words, it is important to know whether and to what degree spillover

¹ Amy Ellen Schwartz, Ingrid Gould Ellen, Ioan Voicu, and Michael H. Schill, “The External Effects of Place-Based Subsidized Housing,” *Regional Science and Urban Economics*, 36 (6), November 2006, pp. 679-707. According to the authors, “publicly-subsidized place-based housing investments represent government subsidies given directly to developers of affordable housing, usually in the form of below-market-interest-rate loans or property tax exemptions.” By comparison, people or tenant-based subsidies “are given to low-income families to help them pay for housing that they find in the private market.”

benefits from housing investment decline with distance.

Methodology

The authors used a special administrative data set that contained comprehensive information on 293,786 sales of various types of residences in New York City between 1980 and 1999.² They focused their analysis on estimating the external effects of 66,000 new, subsidized housing units (produced between 1987 and 2000) on the value of surrounding properties. These properties were part of New York City's "Ten Year Plan" that eventually cost over \$5 billion and resulted in the construction or rehabilitation of more than 182,000 units.

In order to address the shortcomings in previous studies, the authors employed an estimating approach in which the external benefits of subsidized housing are captured in the price appreciation of surrounding properties. They used a hedonic regression model with a difference-in-difference specification. Under this approach, "impacts are estimated as the difference between property values in the vicinity of housing investment before and after the completion of a new unit relative to price changes of comparable properties farther away, but still in the same neighborhood." They also incorporated the impact of distance explicitly in the analysis. This allowed the authors to estimate the price gradient before and after the housing investment, thus capturing how the impact varies with distance from subsidized housing. Their estimating techniques also allowed them to assess the differential impact of investments of different sizes and with

a varying mix of owner-occupied and multifamily units. In addition, they were able to investigate the difference in the effects of subsidized housing in lower- and higher-income communities. This particular inquiry, the authors indicate, has received little attention in the literature.

Findings and Implications

Perhaps the overriding theme of the authors' analysis is that "the conventional wisdom that place-based housing subsidies hold no advantages over people-based housing subsidies needs to be reconsidered." They found that New York City's investment in the new housing that they studied produced significant external benefits to urban neighborhoods as encapsulated in the appreciation of prices of surrounding properties and that these benefits were sustainable. Furthermore, the authors were able to estimate the spillover effects between housing investments of 50 units versus 250 units as well as compare the impact of housing investments with a different mix of rental units in multifamily structures. They found that the magnitudes of the external effects tended to increase with project size and to decrease with a larger proportion of units in multifamily rental buildings. Consistent with conventional wisdom, the authors found that the external effects declined with distance from the sites of the housing investment.

The results of the authors' investigation of whether the impacts varied with the income characteristic of the neighborhood were quite revealing. They found that the spillover effects were generally larger in the more distressed neighborhoods. However,

their analysis showed that a single small project tends to produce larger spillover benefits in more affluent neighborhoods. Building a small new project in a relatively high-income neighborhood with little existing blight may effectively eliminate all of the blight in the surrounding area, implying a rather large impact. However, in the view of the authors, the same small project built in a low-income neighborhood amid many distressed properties would produce a smaller impact – a considerable amount of blight would remain that might discourage additional investment. But larger projects could generate a critical mass, making significant spillover benefits more likely.

There are several possible policy implications. One consideration is that property owners in the neighborhoods where city-subsidized new housing is constructed might realize a windfall gain in the value of their property. City coffers could then benefit from the additional tax revenues generated from the reassessment of the properties in the relevant neighborhoods.³ In fact, in New York City, the authors' "cost-benefit estimates suggest that the gain in tax revenue generated in the 200-ft ring [of the study's subsidized-housing sites] exceeded the subsidies provided by the city."⁴ For planning purposes, the characteristics of a neighborhood might be examined with more of an eye toward the type of housing investment that would provide the greatest spillover. A general policy prescription would be that "a more effective deployment of housing investments can be achieved by directing larger projects towards more distressed communities."⁵

² Included in the data set are sales of apartment buildings, condominium apartments, and single-family homes.

³ Of course, the resulting higher property values could lead to higher rents, a financial burden for some tenants.

⁴ Indeed, the authors suggest that "the rise in property values in the vicinity of the new housing offers the prospect of using tax increment financing, or a similar policy instrument, to finance the subsidies required."

⁵ The authors hasten to add that caution should be exercised in generalizing the impacts found in New York City to other areas. Conditions in the local housing market and the economy will influence the resulting impact. However, given the enormous size of New York City, with its diverse neighborhoods and housing programs, the authors are encouraged that similar results might be found in other cities.

Spotlight on AchieveAbility: Education Is Key to Becoming Self-Sufficient

By Erin Mierzwa, Community Development Specialist

AchieveAbility is more concerned with building human capital than infrastructure. The community development corporation (CDC) focuses on breaking the cycle of poverty by helping low-income, formerly homeless single parents become self-sufficient.

AchieveAbility provides housing and a wide range of social services to nearly 150 families in West Philadelphia every year. "Housing may be the first service that is provided to the participants in this program, but AchieveAbility's main focus is education and building life skills so that participants can attain self-sufficiency," explains Jac Ferber, AchieveAbility's executive director.

The CDC, a 501(c)(3) nonprofit previously known as Philadelphians



AchieveAbility staff members provide a nutrition workshop to program participants. This workshop is part of the personal development component of the program and will help the participants and their families become self-sufficient.

Concerned About Housing, was formed in 1981. From the beginning, AchieveAbility focused on developing affordable housing. Over the years, it expanded the range of social services it provided. By the early 1990s, AchieveAbility began to develop a process to measure participants' progress in becoming self-sufficient, which evolved into a measurement and accountability tool that AchieveAbility uses today.

Social Services

To be accepted into AchieveAbility's program, participants must agree to counseling, including behavioral health and substance abuse counseling if necessary. Education is an important part of the program, and all participants must take 15 credit hours of classes a year to attain a high school GED, associate's degree, or bachelor's degree. In addition to taking classes, all participants are required to work 25 hours each week.

AchieveAbility helps coordinate transportation and child care for participants so they can work and take classes. It also has a technology center to teach computer skills to participants and their families. Staff members provide home maintenance and nutrition training to the families and bring the high school students on college tours.

Ninety-nine percent of the participants are women, who have an average of two children. Participants are referred to AchieveAbility by homeless shelters, other social service agencies, current program participants, transitional housing services, and word-of-mouth. AchieveAbility does not conduct background checks

or criminal record checks on applicants, but it does evaluate the likelihood of applicants' adhering to the program's strict education and work requirements before accepting them.

Ferber notes that "education is a critical component to this program and is the key to permanently breaking the cycle of poverty." If a participant does not have a high school diploma, AchieveAbility assists him or her in enrolling in GED preparation classes offered by a community college. If a participant has a high school diploma, AchieveAbility provides guidance for enrolling in postsecondary education courses and pays some education costs that are not covered by student grants and loans.

During the last three years, 47 program participants have received a two-year postsecondary degree or its equivalent, 18 have received a high school GED, and six have received a bachelor's degree. Many of the participants are still in the program; they can remain until they receive a bachelor's degree.

AchieveAbility measures the success of its program by the number of participants who successfully complete at least a two-year postsecondary degree, believing that participants will be able to support themselves with this amount of education. Of those who have left AchieveAbility's program in the last three years, 37 percent have completed at least a two-year postsecondary degree or its equivalent.

Measurement and accountability are important aspects of AchieveAbility's program. The Family Self-Sufficiency

Continuum has four components:

- **Education** – the participant’s academic achievement, computer literacy, and extracurricular activities
- **Parenting** – the children’s academic achievement, computer literacy, extracurricular activities, and preparation for college, if applicable
- **Personal development** – the participant’s sobriety, involvement in the community, and health-care and home management skills
- **Financial** – the participant’s ability to save and progress toward obtaining a stable, sustainable job that allows the family to live self-sufficiently

Participants receive an overall score based on their progress in each component. To remain in the program, participants must continue to improve their score and move toward self-sufficiency. They must also meet with counselors at least once each quarter to track their progress along the continuum.

Affordable Housing

AchieveAbility has developed over 200 housing units and currently owns and operates 145 units; 105 are permanent units and 40 are HUD-funded transitional units. While AchieveAbility has one 25-unit apartment building, the majority of its rental units are scattered-site row houses. It has used low-income housing tax credits (LIHTCs) to develop over 100 of its rental units. AchieveAbility has been successful in using LIHTCs to develop small scattered-site projects because the

team follows the same model for each deal and works with a handful of investors.

AchieveAbility develops approximately 10 new rental and owner-occupied housing units each year, through both rehabilitation and new construction. Its strategy is to develop several housing units on each block. Ferber notes that AchieveAbility wants to have enough units on a block to enable program participants to build relationships with each other and create support systems but does not want to concentrate too many units on the same block.

AchieveAbility is also involved in larger community development initiatives in the West Philadelphia area, including working with Partnership CDC on developing the Haddington/Cobbs Creek 2010 plan, a comprehensive community-led plan funded by the Wachovia Regional Foundation to revitalize the Haddington and Cobbs Creek neighborhoods.

For information, contact Jac Ferber of AchieveAbility at (215) 748-8750 or jac.ferber@achieve-ability.org; www.achieve-ability.org.

An AchieveAbility Success Story

Editor’s note: Information for this article was provided by AchieveAbility.

On Christmas Eve in 1994, Diane moved into a home provided by AchieveAbility. At the time, she was homeless with one daughter and one son and was separated from her husband. Diane received counseling, training, and other support during the five years she remained in the AchieveAbility program.

Diane attended first-time homebuyer classes, improved her credit, and saved money during her last year-and-a-half in the program. She left the program in 1999 and purchased the AchieveAbility house in which she had been living. Today, Diane owns a second home and rents out the house she purchased from AchieveAbility.

According to Diane, the affordable housing and other services provided by AchieveAbility, and then owning her own home:

- Allowed her to get a B.A. in social work from Temple University and an M.A. with a concentration in behavioral psychology from Alvernia College
- Helped her daughter get better grades because she wasn’t worried about her mother or the family’s stability; she graduated from George Washington University and works for Toll Brothers. Diane’s son graduated from Orleans Technical Institute and works for Westinghouse
- Allowed her family to live under one roof and support one another

Diane now works as a social worker for the City of Philadelphia. In 2006, she received a commendation for being an excellent worker, having great communication skills, being compassionate, and bringing families together.

A Matter of Main Streets ...continued from page 1

nity-driven strategy first developed by the National Trust for Historic Preservation to revitalize older business districts. The Main Street approach incorporates four principles: organization, promotion, design, and economic restructuring. LISC added a fifth component, cleanliness and safety, to its strategy.

Under the LISC initiative, eight community development corporations (CDCs) received \$1.5 million in funding over three years, mainly to hire commercial corridor managers. Edwards noted that the initial \$1.5 million in funding leveraged over \$19 million in investment. LISC continues to fund corridor managers and uses WPF, State Farm Insurance, and national LISC funds to make grants and loans to improve business façades, the streetscape, and nearby residences.

The City of Philadelphia supports commercial corridor improvement efforts through the Philadelphia Department of Commerce and, most recently, through the Neighborhood Transformation Initiative (NTI). Andrew Frishkoff, director of neighborhood economic development for NTI, said, “NTI is assisting commercial corridors as it assisted residential neighborhoods – working with partners to address blight and to allow corridors to realize their potential as neighborhood centers.” Frishkoff indicated that NTI has focused on providing funding to “neighborhood corridors” or key pedestrian-transit corridors throughout the city.¹ NTI is providing nearly

\$2 million in grants to CDCs for commercial corridor work.

NTI also developed the ReStore Philadelphia Corridors program, which includes a five-part strategy that focuses on planning and data analysis for strengthening corridors; aligning and leveraging community economic development resources; making neighborhood corridors more welcoming places; developing a system to attract and retain businesses on corridors; and supporting corridor management organizations.

A \$150 million bond ordinance approved by the Philadelphia City Council will provide \$65 million in capital funding for corridors through ReStore Philadelphia Corridors.

The state of Pennsylvania’s Department of Community and Economic Development (DCED) provides funding for commercial corridor revitalization through its Main Street program. Ed Geiger, director of the center of community development in DCED, noted that “commercial corridors are the heart of the community where people come together. If we want to restore older communities, create vibrant downtown areas, and improve the quality of life for residents, we need to support commercial corridor initiatives.” The state funds six Philadelphia-area CDCs through its Main Street program.²

Meanwhile, the Community Design Collaborative, a nonprofit that provides preliminary design assistance to other nonprofits on a pro bono ba-

sis, has chosen commercial corridors as the focus of the first phase of Infill Philadelphia, an initiative promoting innovative design strategies for urban infill development. The collaborative, in conjunction with LISC,

A \$150 million bond ordinance approved by the Philadelphia City Council will provide \$65 million in capital funding for corridors through ReStore Philadelphia Corridors.

is exploring how design can play a key role in commercial corridor revitalization. In addition, Econsult Corporation is completing a corridor study to analyze the impact of corridor investment on other corridors and neighborhoods.

For information, contact Mark Edwards of LISC at (215) 923-3801 or medwards@liscnet.org; Geraldine Wang of William Penn Foundation at (215) 988-1830 or gwang@wpennfdn.org; Andrew Frishkoff of NTI at (215) 683-2026 or andrew.frishkoff@phila.gov; Ed Geiger of DCED (717) 787-5327 or egeiger@state.pa.us; or Carryn Maslowski of Community Design Collaborative at (215) 587-9290 or carryn@cdesignc.org. Information on Pennsylvania’s Main Street program is available at www.newpa.com/programDetail.aspx?id=79.

¹The Philadelphia City Planning Commission cited 263 commercial corridors citywide in its most recent inventory from 2002 to 2003. The inventory ranges from pedestrian-transit corridors in which businesses are located on sidewalks with transit and pedestrian access and on-street parking to free-standing malls with parking lots. Pedestrian-transit corridors are the most prevalent type of commercial corridor in the city.

²In Philadelphia, the city administers the program and provides matching funds to the six CDCs. In addition, the state provides Main Street funds to a seventh Philadelphia CDC.

Reviving Commercial Corridors

Commercial corridors in Philadelphia are as different as the neighborhoods that surround them. Consider the three corridors profiled in this issue: 5th and Lehigh streets, Germantown Avenue, and Baltimore Avenue. Nonprofits have focused on revitalizing these corridors and, since 2002, they have been funded by Philadelphia Local Initiatives Support Corporation.

Fifth and Lehigh Streets, North Philadelphia

The Hispanic Association of Contractors and Enterprises (HACE) has focused on revitalizing the 5th and Lehigh streets commercial corridor, more commonly known as El Centro de Oro. The corridor, a 10-block area in the Fairhill section of Philadelphia, is known as the business, arts, and cultural center of Philadelphia's Latin-American community.

HACE's goal has been to make the corridor a destination for residents and visitors from around the Dela-

ware Valley, and it has been capitalizing on the rich heritage and culture of the neighborhood. HACE has developed over 30,000 square feet of office and retail space along the corridor since 1985, and the majority of the abandoned properties have been restored. HACE's priorities have included addressing vacant and abandoned properties and providing technical assistance to business owners.

HACE has worked with government officials, local businesses, residents, and other community groups to host cultural events on the corridor, sponsor trolley tours, and create murals. For example, work by local artists is showcased at various businesses one Friday night each month at a Noche de Arte event and there is an annual neighborhood festival called FERIA del Barrio.

In 1997, HACE started its own version of the Main Street program with funding from the Philadelphia Department of Commerce and the Pennsylvania Downtown Center. In 2003, HACE was awarded a \$100,000 neighborhood planning grant from Wachovia Regional

Foundation to identify key problems of the corridor and the surrounding neighborhood. Most recently, the corridor was designated to receive city and state Main Street funding, and HACE received a \$750,000 five-year implementation grant from Wachovia Regional Foundation to implement a neighborhood development plan that includes revitalizing commercial and residential sections of the neighborhood.

Guillermo "Bill" Salas, Jr., HACE's president and co-founder, said there have been both successes and challenges in the revitalization process. Salas said a challenge has been attracting younger residents to shop at area businesses, instead of at malls and other shopping venues. Other challenges have been providing off-street parking for shoppers and expanding the business mix along the corridor. On the other hand, Salas said, "Two major successes have been the corridor's ability to attract people from other areas of Philadelphia and surrounding counties who want to experience Latin culture, and the local community's recognition that the corridor has economic vitality."

For information, contact Cesar Santiago of HACE at (215) 426-4990 or csantiago@hacecdc.org; www.hacecdc.org/commerce.htm



HACE bought this building on 5th Street in 2003 and renovated the façade in 2005 by adding mosaic artwork to highlight the Latin-American culture of the neighborhood. HACE expects to lease the building to an artisan this summer.

Germantown Avenue, Mt. Airy

Mt. Airy, a neighborhood known nationally for its history of racial integration, includes a 13-block commercial corridor on Germantown Avenue. The neighborhood is primarily middle-class but has a mixture of housing stock that fosters a degree of socioeconomic diversity. Mt. Airy lies between middle- to upper-income Chestnut Hill and low- to moderate-income Germantown. Both Chestnut Hill and Germantown also have commercial areas along Germantown Avenue.

The Mt. Airy corridor is composed of a historical/tourist section, a health and home service section, and an arts, entertainment, and theater section. Mt. Airy USA has been working to revitalize the corridor and the surrounding neighborhood since 1980. In 1999, it introduced a comprehensive commercial corridor revitalization effort called The Avenue Project.

Farah Jimenez, executive director of Mt. Airy USA, explained that there are clear stages to any revitalization process and the Germantown Avenue corridor effort has followed these steps: "First, one needs to focus on cleaning the corridor and making it safe, then one must work with business owners to improve their façades, and finally one should improve the streetscape. Also, the first to come are the service-sector businesses, such as daycare centers, accounting firms, insurance companies, and hair and nail salons. Next, are restaurants and last is the retail."

Mt. Airy USA has received city and state Main Street funds and \$3 million for streetscape improvements from the U.S. and Pennsylvania transportation departments, the Delaware Valley Regional Planning

Commission, and the Philadelphia Department of Commerce. The nonprofit has also been approved for a Neighborhood Transformation Initiative grant.

Jimenez noted that an important source of funding has been the City of Philadelphia's CDC tax credit program, from which the nonprofit receives \$100,000 per year for 10 years from Rittenhouse Claridge LLP to support its economic development work, including The Avenue Project. In return, Rittenhouse Claridge receives a credit of up to \$100,000 each year against its Philadelphia business privilege tax obligation. Mt. Airy USA has used these funds to create its commercial real estate development department, which recently acquired and rehabilitated four historic buildings for a mixed-use development project called Winston Commons.

Local business owners and residents have made financial contributions and volunteered for advisory committees. From 2003 to 2005, area merchants donated \$60,000 annually, which enabled a three-member, full-time crew to clean and refurbish the corridor. The East and West Mt. Airy Neighborhood Associations and the Mt. Airy Business Association have also supported the commercial corridor revitalization efforts.

According to Mt. Airy USA, there has been \$35 million in capital investment in the last seven years, including the completion of a super-



The owners of Groben's Seafood on Germantown Avenue in Mt. Airy renovated the façade of the building in 2004 with a grant from Mt. Airy USA. Groben's has been in existence in different locations along Germantown Avenue since 1877.

market, community bank (Valley Green Bank), medical facility, senior housing, nursing education center, and two Mt. Airy USA development projects. In addition, nearly 35,000 square feet of office and retail space has been constructed along the corridor since 1999.

Jimenez noted that her organization faces several challenges, including convincing some business owners to take advantage of a façade grant program and finding enough funding to continually support the operational aspects of the program. On the other hand, she said: "The residents and businesses have come together in a collaborative effort to revitalize not only the commercial corridor, but also the surrounding neighborhood."

Mt. Airy USA is leading an effort to create a business improvement district (BID). In a BID, business and property owners pay mandatory fees that fund cleaning and improvements to the area.

For information, contact Cicely Peterson Mangum of Mt. Airy USA at (215) 844-6021 or cpmangum@mtairyusa.org; www.mtairyusa.org.

Baltimore Avenue, University City

The University City neighborhood in West Philadelphia is home to many of the city's colleges and universities, hospitals, and medical and technology centers and has a diverse group of residents, ranging from immigrants to college students and faculty. University City District (UCD) was formed in 1997 to improve the safety and cleanliness of a 2.2-square-mile area and to increase its vitality.¹ As part of its neighborhood initiatives, UCD has focused on revitalizing the Baltimore Avenue corridor from 45th to 50th streets.²

Safety has been a focal point in the revitalization process, and UCD has increased residential and commercial lighting along the corridor. It has worked with business owners to complete façade improvements and stained-glass window restorations. UCD has also worked with the Philadelphia Horticultural Society to develop landscaping plans for traffic islands. In addition, UCD recognized that bicycling was a common mode of transportation and recreation in the area and installed 85 bike racks throughout University City.

UCD's funding sources include the city's Neighborhood Transformation Initiative, William Penn Foundation, Philadelphia Department of Commerce, Citizens Bank, State Farm Insurance, the Coleman Foundation,

the Pennsylvania Department of Transportation, the University of Pennsylvania, the University of the Sciences, Drexel University, and the Science Center.

Wendell described the successes and challenges that UCD has faced in the revitalization process. A challenge has been organizing the local businesses in a formal manner, since there is no business association. A success has been the Dock Street Brewery, a restaurant and brewery due to open in 2007 on 50th Street and Baltimore Avenue. UCD is hopeful that this restaurant will become an anchor for the Baltimore Avenue corridor.

For information, contact Carolyn Hewson of UCD at (215) 243-0555, ext. 247, or carolyn@ucityphila.org; www.ucityphila.org.



Vientiane Café, a restaurant on Baltimore Avenue that features Laotian and Thai cuisine, opened four years ago. The owner received a matching grant from UCD for façade improvements, an awning, lighting, and design work.

¹ The area is a special services district. UCD receives voluntary contributions from University City businesses, institutions, and individuals to support its work in the district.

² UCD also works with People's Emergency Center in revitalizing the Lancaster Avenue corridor. UCD focuses on the Lancaster Avenue corridor from 34th to 38th streets.

Lender Shares Insights on Community Development ...continued from page 3

gram has met with great enthusiasm from our clients and has proven to add financial strength to these transactions that did not exist before the infusion of NMTC money.

It is amazing that there are many more worthwhile, qualified transactions than there is allocation to fund them.

Do you think that banks should consider becoming involved as NMTC investors or allocatees?

My experience as an investor and allocatee has convinced me that either position is very valuable to a bank as a way to deploy community development funds into worthwhile transactions. In either case, it will take the willingness to learn a new program and to devote additional time and resources to it.

The process of becoming certified as a CDE and applying for a NMTC allocation is grueling and expensive. It requires a consultant very familiar with the program.

A bank that receives an NMTC allocation and signs an allocation agreement with the CDFI Fund must make a long-term commitment for the origination, negotiation, closing, compliance reporting, and asset management of loans and investments made with the allocation.

We are very pleased that we took the chance and received an allocation and will, most likely, apply again.

Bank NMTC investors receive federal tax credits, CRA credit, interest income from loans made by the CDE to the borrower, and fee income from the deals. They also generate deposits that are related to the deals.

Banks that obtain NMTC allocations have some additional opportunities:

- Commitment fee income of a percentage of the total qualified equity investment. Sovereign has chosen to take no more than 2 percent, but allocatees typically receive fee income ranging from 1 percent to 12 percent.
- Annual asset management fee income from project operations to cover compliance and asset management costs.

We've heard for some time that it's difficult to finance and develop mixed-use projects in the Third District. Has Sovereign financed such projects?

I've financed many mixed-use properties. They've ranged from small inner-city properties with retail stores and apartments to \$35 million mill conversions with office, retail, and residential components. I don't understand why people think they're difficult.

When underwriting mixed-use properties, the lender has to proceed on two fronts. The residential units are looked at as though they were in a multifamily building, and the commercial piece is analyzed separately. Then they are put together in the cash flow analysis.

Do you see some good investment opportunities for banks in the Third District?

Sovereign Bank is currently managing a half billion dollars of assets in low-income housing, new markets tax credit, and historic tax credit investments. These investments have opened the door to other bank products. I believe it is good business to partner up with smaller institutions that need to invest but do not have

the expertise. I would welcome interest from other banks willing to explore this possibility.

Do you have any suggestions for nonprofit developers that want to obtain bank financing?

Nonprofits should provide comprehensive, complete, easily understood financial and other information; realize that banks have limitations based on their lending policies, particularly in the areas of safety and soundness; and be willing to entertain alternative ways of structuring projects.

They should also establish long-standing relationships with several banks. Random shopping for every deal will not necessarily provide the best outcome. Conversely, relying on only one bank for all transactions can be difficult, as each bank has a lending limit based on exposure to one client.

If your nonprofit has not been developing for a long time, walk before you run. Perhaps partnering with a more experienced developer on several transactions is wise. However, make sure each partner is fairly compensated for what they bring to the table.

Be familiar with all of the governmental and foundation dollars available to you. Don't miss out on valuable resources that may provide needed capital to your transactions.

Which community development deal has been the most rewarding to you personally?

I guess if I had to narrow it down to one, the New Covenant Church relationship has been very rewarding to me. Originally, I met with the church leaders to refinance their campus in Mt. Airy, Philadelphia. Located on

Loans to Houses of Worship and Nonprofits

Pamela M. Woodell, senior vice president of Sovereign Bank, reports good experience with loans to houses of worship and nonprofits:

"I've made a dozen church loans ranging from \$50,000 to \$23 million for construction, bridge, and permanent financing. There have been no defaults on these loans, which were made to churches primarily in New Jersey and Pennsylvania.

"The underwriting in church loans needs some additional considerations, such as:

- What has been the consistent membership growth over the past five years and what is it anticipated to be over the next five years?
- What would happen if the senior pastor were to leave? Are there other pastors who could carry on the ministry in his absence? Would the church lose members over it?
- What has been the growth pattern in tithes and offerings over the past five years? What is projected for the next five years?
- One of the objections to church lending is the 'special purpose use' of the real estate. The property needs to be looked at with an eye toward 'Can this building be used for another purpose?'
- A very substantial mitigant to the risks of church lending is character, an important factor in the credit decision. Churchgoers will dig deep into their pockets to rescue the ministry from financial distress.

"Banks that make loans to houses of worship may become the depository for the church's funds, which can involve demand deposit accounts, certificates of deposit, wealth management, and cash management services."

She added: "Banks can provide nonprofits with term loans for the nonprofit's headquarters, working capital lines of credit, predevelopment financing for real estate projects, and revolving loan products for construction projects. Many lenders believe that nonprofit lending is inherently riskier and more complicated than for-profit lending. This can be the case. However, it is an area of business that can be rewarding both in terms of financial return and CRA responsiveness, and it should not be overlooked."

Woodell noted that smaller loans can be worthwhile: "The smallest loan I ever underwrote was \$25,000 for a small real estate developer. In the 15 years since that time, that developer's business has grown and he has remained a loyal customer of mine."

a beautiful former college campus, the church has a vibrant, growing congregation. In addition, it has used the large, historic, stone buildings on the campus for excellent community development opportunities – a charter school, a public school, and a small-business incubator.

Several years ago, I was approached by the church to partner with them on the conversion of one of the college buildings into a historically

significant apartment building for seniors. Sovereign provided the low-income housing and historic tax credit equity for this transaction. Our equity has helped to create a beautiful environment in which the senior residents can live in security and with pride.

For information, contact Pamela M. Woodell at pwoodell@sovereignbank.com.

Urban Developer...

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we didn't have site control on more than one block. We weren't able to assemble site control at prices that would work so we could deliver the intensity, quality, and diversity of uses that create a neighborhood. We were all by ourselves. Things that were promised didn't happen around us. Today, we won't go into a city unless all the ingredients are there.

In retrospect, the block we worked on was an example of totally impractical adaptive reuse. The 22 historic buildings presented incredible inefficiencies and complexities; the buildings were on different levels and in terrible condition. The block probably needed to be torn down.

SBER has developed 620 homes, primarily new construction and some renovations, in Harrisburg since 2001. How do you see the outlook for Harrisburg?

Harrisburg has a great mayor with lots of energy. There are encouraging signs of life, including new restaurants. The state alone has over 60,000 workers in Harrisburg. We fixed up blighted housing and established a housing market, but our investment was all residential and too incremental in scale. Our piece has been too small and too isolated to really have the full impact. Redevelopment there has to be much more aggressive. There's a much bigger opportunity to scale up to do mixed-use.

For information, contact Bob Rubenkonig, vice president and director of marketing and communications at SBER, at (443) 573-4000 or b.rubenkonig@sber.com; www.sber.com.

Calendar of Events

Improving Financial Education in Pennsylvania's Communities

This symposium is designed to identify a statewide community of organizations that offer financial education; to share information among peers about effective strategies for delivering financial education; and to identify common challenges among those who incorporate financial education in their work.

June 12–13, 2008; Harrisburg Crowne Plaza.

For information, contact René Bryce-Laporte at (717) 783-2498 or rblaporte@state.pa.us; moneysbestfriend.com.

2007 Community Development Policy Summit

The 5th annual policy summit will examine challenges and opportunities, including unintended consequences of the democratization of credit and the integration of revitalization strategies with regional economic development, that help shape public policy.

June 21–22, 2007, Cleveland Marriott Downtown at Key Center

For information, go to www.clevelandfed.org/2007/policysummit.

Reclaiming Vacant Properties: Strategies for Rebuilding America's Neighborhoods

This event, sponsored by the National Vacant Properties Campaign, is the first national conference focused on helping realize the potential of vacant properties as community assets. It will highlight strategies to ensure they benefit the residents, communities, and cities around them.

September 24–25, 2007, Omni William Penn Hotel, Pittsburgh, Pa.

For information, contact Jennifer Leonard of Smart Growth America at jleonard@smartgrowthamerica.org or call (202) 207-3355, ext. 23; www.vacantproperties.org/reclaimingconference.html

Reinventing Older Communities: How Does Place Matter?

This third national conference organized by the Federal Reserve Bank of Philadelphia and other sponsors will include the latest thinking and best practices on a comprehensive range of issues confronting cities of different sizes. Concurrent sessions will include research and "how to" tracks.

March 26–28, 2008, Marriott Philadelphia Downtown

Please contact Jeri Cohen-Bauman at jeri.cohen-bauman@phil.frb.org if you want to receive future information on this event.

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