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Pennsylvania Seeds a New Crop of Local Grocery Stores

by Stacy Mitchell

A new, independently owned grocery store has risen in the place of what had been a run-down, sparsely stocked market in the small town of Williamsburg, Pennsylvania (pop: 1,345).

Two hundred miles away, another new independently owned grocery store is opening. This one is in a low-income, African-American neighborhood in North Philadelphia, which has been without a supermarket for ten years.

Meanwhile, one of the oldest farmers markets in the country, which has operated in the center of Lancaster since the 1730s, recently took steps to stay in business for years to come by upgrading the systems in its 19th century building.

All of these projects were made possible by the Pennsylvania Fresh Food Financing Initiative (FFFI), a four-year-old, statewide grant and loan program for grocery store development. The first of its kind in the nation, the program aims to combat a problem plaguing many low-income communities across the country: a severe shortage of stores selling fresh groceries.

By providing loans that commercial lenders deem too risky and grants to make up for the higher costs of developing stores in central business districts and urban neighborhoods, this $120 million investment fund is seeding a new crop of food markets across the state.

To date, FFFI has made $42 million in grants and loans to finance 58 projects, about 40 percent of which are new stores and the remainder are expansions and major renovations of existing outlets. The stores range in size from tiny greengrocers to 70,000-square-foot supermarkets. About half are located in urban neighborhoods in Philadelphia and Pittsburgh, and the rest in small towns across rural Pennsylvania.

Perhaps most remarkable, all are independent businesses. One-third are single-location retailers, while the other two-thirds are locally owned chains of 2 to 17 stores.

"It turns out that the support offered by the initiative is most useful to independent retailers and they are the ones who are willing to take risks in underserved communities," explained Hannah Burton Laurison, a policy analyst with Planning for Healthy Places.

That no big chains have yet taken advantage of the fund suggests that the added costs and financial risks involved in building a store in a low-income neighborhood or a small town are not the primary reasons supermarket chains have avoided these locations.

Many independents, on the other hand, see real opportunities in these neighborhoods and have the flexibility to adapt their stores to fit into historic buildings or odd-shaped lots. For them, the fund not only overcomes the higher costs of opening stores in these locations. It solves what may well be a more pivotal factor driving the grocery store gap: independent retailers, unlike chains, lack access to sufficient capital.

History of the Fund

The FFFI grew out of the work of the Food Trust, a Philadelphia-based nonprofit organization. In 2001, the Food Trust released a study documenting a severe lack of grocery stores in many of the city's low-income neighborhoods. The study found a strong correlation between a lack of stores selling fresh food and high rates of diet-related illnesses and deaths. Moreover, these neighborhoods were losing desperately needed economic activity as residents traveled to more affluent areas to buy groceries or spent their food dollars at national fast-food chains.

The grocery store gap is not unique to Philadelphia. Chicago today has fewer than 1,000 of the supermarkets that it had in 1970. A recent study found that middle and upper income communities in Los Angeles County have twice as many supermarkets per capita as low-income communities and predominantly white areas have three times the supermarkets of predominantly black neighborhoods. New York City estimates that nearly 3 million of its residents live in neighborhoods with high rates of diet-related diseases and scant opportunities to purchase fresh produce.

The Food Trust's research on the grocery store gap in Philadelphia prompted the city council to convene a task force that included developers, retailers, community organizations, and elected officials. They made several recommendations, including the creation of a financing program for grocery stores.

The issue soon caught the attention of state lawmakers, who held hearings that revealed that the grocery store gap is not only an urban problem. It's also a major problem in many small towns. These communities lack the population to support a large, suburban-style supermarket and the big chains have been unwilling to deviate from their standard formats in order to serve these markets. Meanwhile, independent grocers that operate smaller stores have struggled to raise enough capital to open new stores or to make the necessary upgrades to keep their existing stores viable.

In three separate appropriates beginning in 2004, the state legislature allocated a total of $30 million to launch the Fresh Food Financing Initiative. Key to the legislative success was the leadership of Rep. Dwight Evans, said David Adler of the Food Trust, along with the fact that the program would serve not just Philadelphia, but communities in every corner of the state.

How it Operates

The FFFI is managed by The Reinvestment Fund (TRF), a community development financial institution, in partnership with the Food Trust. TRF leveraged the state's $30 million to build a $120 million financing pool, drawing on investments from banks as well as federal New Markets Tax Credits.

"We were drawn into this by the advocates and the research they had done," said Margaret Berger-Bradley, TRF's director of communications and investor development. TRF, which had concentrated on housing and some commercial development, had not done many retail projects before, but became convinced by the Food Trust's research that grocery stores could be critical community anchors, attracting other economic activity and improving nearby housing.

To be eligible to apply, a store must primarily sell groceries and locate in a low- to moderate-income area that is underserved by food retailers. The FFFI provides grants of up to $250,000, along with loans. So far, the fund has issued $42 million in grants and loans. The loans range in size from $25,000 to $7.5 million.

The fund is designed to overcome the higher costs of developing and expanding stores in low-income urban and rural communities. "Unlike the suburbs, you don't have nice big clean sites that are ready to go. You have brownfields, odd-shaped lots, small lots, historic buildings—all of which can make it more expensive," explains Don Hinkle-Brown, president of lending and investments at TRF. "If we take care of those front-end costs, it can be enough to get them over the hurdle."

Independents vs. Chains

What has become apparent now that the fund has a four-year track record is that the additional upfront costs are not the main barrier keeping large chains from opening stores in low-income communities. Many seem to prefer deploying their capital elsewhere or are unwilling to deviate from their standard large-format, suburban store designs.

"What we haven't been able to do is attract the attention of the national operators. Some contend they have an urban strategy, but we haven't seen that on the ground," said Hinkle-Brown.

It's a different story for independent grocers, many of whom see opportunities in inner cities and small towns and have the flexibility to adapt their stores to fit into these environments.

"Some of these sites take some adapting to see what will work best," noted the Food Trust's David Adler. "Independents seem to be more interested in doing that."

But the major challenge for independents is financing. While the chains have access to capital markets and can self-finance their growth, independents cannot. The added costs and perceived risks of going into low-income neighborhoods only compounds the reluctance of many lenders to finance independent grocers.

"It's this early development money that they lack access to and that's what the fund provides," said Laurison.

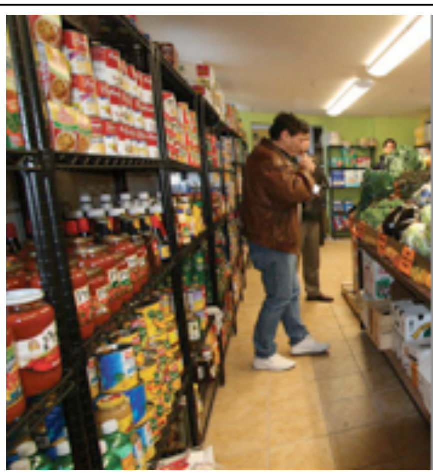
Small Town Success Stories

"I can't begin to tell you how many people have thanked us for staying and investing in this community," said P.K. Hoover, the second-generation owner of Kennie's Market in Gettysburg (pop: 8,000).

A $250,000 grant and additional financing assistance from the FFFI helped Hoover fulfill a long-term goal of rebuilding the original Kennie's, which opened in 1948. "It would have been a lot tougher without that," said Hoover.

At 32,000 square feet, the new store is more than 50 percent larger than the old store and has a modern layout and much more efficient coolers and equipment – all of which should help ensure that Kennie's continues to serve the town for another 60 years, said Hoover.

That's good news for residents. Since the supermarket chain Giant decided ten years ago to move its store out of town to a site beyond the historic battlefields that ring Gettysburg, Kennie's has been the only grocery store within the borough and the only one within walking distance of most homes.



"Supermarkets are highly technical and highly engineered buildings. Older stores need to be rehabbed to stay viable, especially with rising energy costs," explained Gordon Halteman, general manager of real estate and new business development for AWI a wholesale cooperative owned by independent grocers. AWI has helped six of its member retailers, including Kennie's, apply for funding from FFFI. "Without that program, some of these projects would not have been possible."

Another of FFFI's rural success stories is Boyers, a family-owned chain of 17 small grocery stores situated in a cluster of towns in east-central Pennsylvania. About half of its stores are the only food retailers in their towns. Others compete head-to-head with Wal-Mart supercenters and survive on the basis the family's deep roots and loyal customers.

"We put together a financing and grant package to modernize and expand some of their stores, and make them more energy efficient, with an eye to helping them transition to a new generation," said Hinkle-Brown.

Boyers is now owned by the grandchildren of its founders. "It's rare to find a grocery business that will go to the third or fourth generation," said Hinkle-Brown. "Had that transition not taken place, we think a larger company would have bought them and closed half their stores."

Solving the Urban Grocery Store Gap

In Philadelphia, FFFI's projects run the gamut from small produce markets to large supermarkets. One of its earliest projects was bringing a supermarket to a vacant and heavily polluted industrial site in the Eastwick section of Philadelphia. FFFI provided a $5 million loan for construction and a $250,000 grant for job training to Jeff and Sandy Brown, who opened their fifth ShopRite store on the site. ShopRite is a cooperative owned wholesaler that serves independent grocers (much like Ace Hardware).

In North Philadelphia, FFFI is helping to finance the redevelopment of a community-owned shopping center. Built in 1968 by an association of African-American residents led by the civil rights activist Reverend Leon Sullivan, Progress Plaza has been vacant and deteriorating since its grocery store, the only one in the neighborhood, closed ten years ago.

"The initiative was able to provide early capital and architectural renderings of a redeveloped shopping center, and then Fresh Grocer stepped up to open a store there," said Laurison. Fresh Grocer is a local chain of 7 stores. Their Progress Plaza store will be a slightly larger version of a 30,000-square-foot store they opened near the University of Pennsylvania.

Because many urban neighborhoods lack spaces that can accommodate a full-service grocery store, FFFI has funded a variety of small stores that bring fresh produce to underserved neighborhoods.

Grants and loans of $55,000 from FFFI enabled the owners of Ha Ha's Market, a twenty-year-old Korean grocery store, to renovate, purchase more efficient equipment, and add more space for fresh produce. Since the improvements were made, sales at the 900-square-foot store have tripled.

FFFI also helped the 35-year-old Weaver's Way Co-op, which does $7.5 million a year in sales at its main store, open a small, satellite market in a low-income neighborhood. The 700-square-foot store opened in July selling fruits, vegetables, dairy, and some meat. It's the only source of produce within 2 miles.

"Our last feasibility study showed we should go into upscale neighborhoods. But we decided this would be a good thing," said general manager Glenn Bergman.

Another strategy is helping corner stores move away from junk food and sell more fresh food and groceries. One success story is Romano's, a bodega in northeast Philadelphia. With technical assistance from the Food Trust and a grant from FFFI, owner Juan Carlos Romano reconfigured his store to sell fruits and vegetables.

The key to making the transformation work financially was replacing his existing equipment with highly energy-efficient lighting and refrigerators. "We have more coolers [to accommodate the produce], but we're paying less than we were before," said Romano, adding that sales have increased since the renovations.

A Model for Other States?

Given that it's mission is to finance projects that other lenders consider too risky, FFFI's track record is pretty good: only four stores financed by the fund have closed.

"Two of those were very high risk. We don't feel bad about either," said Hinkle-Brown. But he does find himself wondering what else TRF could have done to help the other two overcome the challenges they encountered.

Unlike many commercial lenders, TRF is very hands-on in helping its borrowers improve their odds of staying in business. TRF is particularly attuned to job quality, partly out of concern for community development, but also because it makes good business sense.

"How can you create an attachment to your store on the part of your clientele if your workforce is always coming and going?" asks Hinkle-Brown. Although job quality is not expressly part of the eligibility criteria, TRF has turned down FFFI applicants because jobs at their stores would be low-wage and dead-end.

Both the Food Trust and TRF believe FFFI is a highly replicable model. Lawmakers in other states, including New Jersey, Ohio and California, are looking at the feasibility of replicating the program, though there has been little concrete action so far.

Cities, most notably New York, are also studying the approach.

"The challenging piece is that the public sector needs to put some substantial resources behind it," said Hinkle-Brown, adding that flexibility is also essential. Had the legislature not offered TRF fairly wide leeway in carrying out the program, it would not have been able to meet the needs of such a diverse range of food retailers and communities.

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