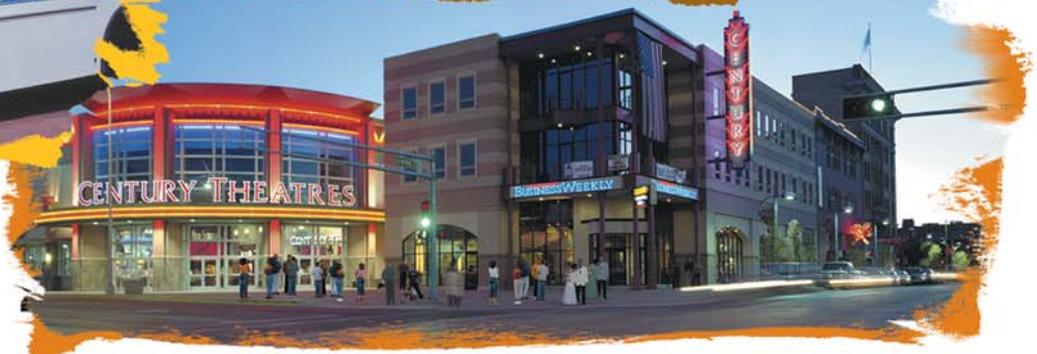
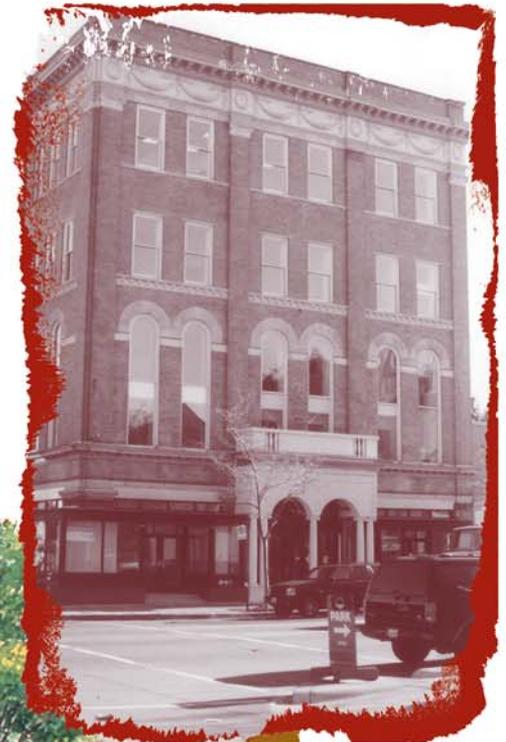


Foundations and Real Estate

*A Guide for Funders Interested
in Building Better Communities*

Foundations and Real Estate: A Guide for Funders Interested in Building Better Communities



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Foundations and Real Estate:
A Guide for Funders Interested in Building Better Communities

Publication Produced and Distributed by:

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Acknowledgments:

This investment guide was undertaken by the Funders' Network for Smart Growth and Livable Communities as part of our Real Estate Finance and Smart Growth Project. We gratefully acknowledge the Bank of America Foundation, Robert Wood Johnson Foundation, and David and Lucile Packard Foundation's support for the Real Estate Finance and Smart Growth Project. In addition, we are indebted to the representatives from the 19 foundations and projects reflected in this guide who gave willingly of their time and talents to be interviewed for the profiles that are included here. Each offered a compelling story of an innovative investment strategy that fulfills the double bottom line goals of achieving both mission and financial returns (contact information is included at the end of each profile). We thank each of them for their involvement in this effort.

Funders' Network for Smart Growth and Livable Communities

Founded in 1999, the mission of the **Funders' Network for Smart Growth and Livable Communities** is to expand funders' abilities to support organizations working to build more livable communities through smarter growth policies and practices. The Network serves as an active resource and focal point for foundations, nonprofit organizations, and other partners working to solve the environmental, social, and economic problems created by suburban sprawl and urban disinvestment and attempts to leverage organizational, financial, and intellectual resources towards solving these problems (in particular, to strengthen communities by improving decision-making about where, when, and how they grow). The Network's primary roles and responsibilities include raising awareness of the connections between sprawl and quality of life issues of interest to communities of funders; bridging gaps between sectors that are working on issues separately; ensuring that diverse constituencies better understand the goals, objectives, and benefits of smart growth; adding knowledge through research and cataloging; and convening and networking change agents in the field.

For more information, visit www.fundersnetwork.org

Real Estate Finance and Smart Growth Project

Land development practices impact a host of environmental, economic, and social issues of concern to foundations. At the same time, real estate is accounting for a growing share of foundation investments. As a result, foundations and their boards are exploring what their role should be in supporting more thoughtful real estate development in their regions, as well as how they should approach real estate investment. Through the **Real Estate Finance and Smart Growth Project** (launched in 2000), the Funders' Network has been examining real estate finance issues and ways that foundations can influence smarter growth development. By cataloging and sharing promising examples of foundation practices in this area, the Network aims to increase opportunities for other foundations to use all the resources at their disposal to help create model projects and support market transformation. The Network has three target audiences for this work: a) foundations already investing in smart growth grantmaking; b) foundations already investing in real estate; and c) foundations with a strong commitment to place. In addition to commissioning and disseminating relevant research, the Network also hosts an annual meeting for the Project.



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Foreword

Decisions about where and what to build impact a host of environmental, economic, and social issues of concern to foundations. At the same time, real estate is accounting for a growing share of foundation investments, and real estate investors are coming to the realization that better planned places that allow residents to live, work, and play are where they should put their money.

As a result, many foundations are exploring what their role should be in supporting more thoughtful real estate development in their regions, as well as how they should approach real estate investment. Some are using the catchword, “smart growth,” to describe what they are trying to accomplish¹. Most agree that the smart growth agenda is at least about *locating* new development and accommodating growth through a process that considers regional impacts, uses existing infrastructure efficiently, and preserves natural and cultural resources. Smart growth principles also call for creating vibrant, livable communities. It is the design of communities—including mixed uses and mixed incomes, pedestrian-friendliness, and public spaces—that contributes to a sense of community. In this guide, we call development that represents progress toward these ends ‘smarter growth real estate development.’

For foundations asking these questions, there are many examples from which to draw inspiration. Foundations across North America have taken remarkably diverse steps to achieve smart growth development and create more livable communities. This report presents stories that demonstrate the strategic use of every kind of investment a foundation can make, including grantmaking, program-related investment (PRI), credit enhancement, market-rate portfolio investment, and purchasing foundation office space. The stories also describe every role a foundation can play, including fact-finding, convening, reaching out to other leaders, and leading. In fact, in many of the stories, it is foundation leadership that has mattered more than actual dollars. Still, the guide is organized around ways to invest, offering a rough typology of investment approaches.

The stories in this guide illustrate how strategic grant investments have had a profound impact on policy, planning, and projects; how program-related investments have leveraged public and private funding to revitalize neighborhoods and regions and are being used to figure out how to sustain mixed-income housing as a component of smarter growth real estate development projects; how loan guarantees have allowed smart growth projects to attract and cultivate investors; how buying and occupying buildings have contributed to both downtown and neighborhood revitalization;

how market-rate insured deposits have provided a risk-less way to support lending to smart growth projects; and how market-rate and close to market-rate debt and equity is finding a place in foundation investment portfolios, achieving a double bottom line.

Readers interested in moving directly to these stories should turn to Part III of this guide (beginning on page 19). For an overview of real estate investment and smart growth-specific terms, please see the Glossary on page 100. For readers interested in understanding why the market is now ripe for this type of foundation engagement, please read on to the executive summary.

This report was commissioned by the Funders’ Network for Smart Growth and Livable Communities, an active resource and focal point for foundations, nonprofit organizations, and other partners working to solve the environmental, social, and economic problems created by suburban sprawl and urban disinvestment. It was motivated by learnings from the Network’s Real Estate Finance and Smart Growth Project, designed to examine ways that foundations can better smart growth development through their investment, as well as grantmaking, portfolios. The author, Julia Parzen, is a consultant to the Network and a former program officer at The Joyce Foundation.

The Network is grateful to the Bank of America Foundation, Robert Wood Johnson Foundation, and David and Lucile Packard Foundation for their financial support of the Project. Finally, this paper would not have been possible without the generous contributions of time (for both interviews and revisions) from representatives of the 19 foundations and accompanying projects profiled in this report. Their expertise, insight, and informed review have infused this guide with innovative examples of the important contributions that foundations can make—beyond grantmaking—toward improving quality of life in the communities and regions that they serve. We hope that their stories will inspire other foundations to follow suit and learn more.

Julia Parzen, Consultant
L. Benjamin Starrett, Executive Director
*Funders’ Network for Smart Growth and
Livable Communities*
Fall 2004

¹ Smart growth is generally defined according to its outcomes; it helps to achieve six primary goals: neighborhood livability; better access, less traffic; thriving cities, suburbs, and towns; shared benefits; lower costs, lower taxes; and keeping open space open (Source: Smart Growth America). A more detailed definition appears on page 100.

Executive Summary

Foundations have four reasons for becoming more involved in real estate development issues, as well as making portfolio investments that have smart growth features. These are to achieve programmatic goals, to improve portfolio diversification and investment performance, to strategically use program-related investments (PRIs) to increase impact and manage assets, and to take advantage of an opportunity to drive market transformation.

For the foundations profiled in this guide, smarter growth real estate development is helping to achieve an array of foundation program goals. Reports and studies show that real estate development built consistent with smart growth principles can contribute to community development, the availability of affordable housing, historic preservation, transit and transportation efficiency, better water and air quality, access to jobs and business investment, economic efficiency, good government, and stable communities with a high quality of life.

Smarter growth real estate investing also is beginning to have a place in foundation investment portfolios. Diversification is key to portfolio performance, and real estate investment contributes to diversification. This is why real estate accounts for an increasing share of foundation investment. At the same time, institutional investors are realizing that “better planned places in 24-hour cities” are where to invest. The largest homebuilders, such as Toll Brothers, Pulte, and Ryan, have entered the market, and the largest pension funds, including California Public Employees’ Retirement System (CalPERS) and New York Common Retirement, have too. There are more than a dozen smart growth or urban real estate funds managed by respected investment managers, and the number continues to grow.

Smarter growth real estate investments are providing an effective means for foundations to use PRIs to increase impact and manage assets. Brody Weiser Burns, a leading PRI consultant, has observed a recent rise in foundation interest in real estate PRIs and in near-market-rate private placement real estate. Nonprofit intermediaries have built a track record in inner-city commercial and mixed-use real estate development and are consistently repaying PRIs. With erosion of endowments and lower grant budgets, PRIs provide a way to continue program impact because they leverage private funds and are recyclable. Because they count as part of grant distributions, but are repaid, they can help to preserve endowment during

periods of weak investment performance. Program-related investments also can help a foundation to manage portfolio volatility. Again, in a low interest rate environment, making PRIs to experienced intermediaries can provide stable, close to market returns and, for a private foundation, are excluded from assets in calculating distribution requirements, which boosts investment returns.

Reports and studies show that real estate development built consistent with smart growth principles can contribute to community development, the availability of affordable housing, historic preservation, transit and transportation efficiency, better water and air quality, access to jobs and business investment, economic efficiency, good government, and stable communities with a high quality of life.

Finally, strategic smarter growth real estate investments are driving market transformation. Foundations are helping to change market perceptions about smart growth by investing in and drawing attention to new smarter growth real estate development projects in their region. Once there is a good example in a region, it is much easier to build the next project and to change policy to support many more projects.

Strategic foundation investment can make a particular difference in the next decade because of real estate trends. One-third of the built environment will be torn down or renovated between 2002 and 2025. When combined with the demand created by new population growth, at least one-half of the development needed to respond to population growth has yet to be built. And the building boom in rail and bus systems will create hundreds of new station areas.

There is strong evidence that the market is hungry for places where people can live and walk to entertainment and work. Recent demographic research studies conclude that demand for dense, walkable neighborhood housing will increase strongly during this decade. Over 472 New Urbanist² projects are on

² New Urbanism describes an international movement to restore existing urban centers and towns, reconfigure sprawling suburbs into communities of real neighborhoods and diverse districts, conserve natural environments, preserve historic structures, and create compact new towns and villages.

the ground in the United States, and the number continues to grow 25 percent a year despite a sluggish economy. Many New Urbanist projects have been among the top sellers in their market in recent years.

The question is whether supply will meet demand. More and more communities are trying to rebuild their urban downtowns and create town centers in older suburbs. Those communities that are offering incentives to developers are getting projects built. Developers and investors need inducements because they are uncertain about the financial performance of smarter growth real estate development. They also are discouraged by land-use laws that make it difficult to get these projects done.

While no one has undertaken a comprehensive analysis of the investment performance of smarter growth real estate development, there is a growing body of evidence that performance can be very good for developers and communities. The new generation of revitalized downtowns and town centers is continuing the precedent set by the big city downtowns of higher relative rents and sales prices. The same is true for a number of greenfield suburban developments.

Various studies suggest that smarter growth real estate development can produce higher value than conventional development. Studies, mostly of small groups of comparable projects, have found that buyers are willing to pay 11 to 15 percent premiums for homes with a new urban design; that the per square foot appreciation for greenfield, New Urbanist development compared to conventional development is 18 percent greater; that town centers produced revenues from 5 to 20 percentage points higher than single use shopping centers in the same region; that rental rates, sales, and resales of housing in town centers, including housing above retail and offices, has exceeded expectations; that residential land values and rents and commercial and office rents are as much as 10 to 20 percent higher in the vicinity of rail stations; and that working class communities that have a mix of housing types, including apartments, have higher house values.

There also are indications that smart growth projects will hold their value better. In "Emerging Trends in Real Estate 2002," Lend Lease and PricewaterhouseCoopers write that "Areas with sensible zoning (integrating commercial, retail, and residential), parks, and street grids with sidewalks will age better than places oriented to disconnected cul-de-sac subdivisions and shopping strips, navigable only by car."

Large, new mixed-use projects that create a "place" often cost more to build. One survey of developers and investors found that most believe the extra costs to be 10 percent or less and that the higher costs appear to be covered by an increase in value attached to creating a desirable place to work and live. Another study found that in spite of the higher costs associated with a denser street grid, finer design details, and community amenities, the cost per lot was usually comparable because of higher densities.

The biggest financial challenge in attracting developers and investors continues to be the time it can take for new mixed-use, pedestrian-oriented developments to achieve the critical mass necessary to produce high returns. Short-term performance can be inferior to nearby conventional development. Some developers have chosen to focus on more modest infill projects where there already is "a place" that can be made more attractive. Others have taken special care to stage projects to produce the quick returns investors require. More must be done to develop interest in smart growth among long-term investors and develop new financing vehicles that appeal to these investors.

Supply will only meet the demand for smarter growth real estate development if financial and regulatory barriers can be addressed. Steps are being taken to address these barriers, and foundations are playing a role in each case. Mixed-use, pedestrian-oriented development is an unfamiliar product to many in the real estate field. Foundations are funding keystone projects to provide examples for developers and cities and comparables for investors. More systematic research is needed to document how smart growth projects build long-term value. Foundations are funding research to quantify the value of placemaking, so that financial markets can account for it. When investment calculations rely upon high discount rates, it is difficult to convince investors that higher long-term returns and more stable and increasing value are worth the wait. Foundations are becoming patient investors and funding efforts to calculate returns. Secondary markets are reluctant to accept mixed-use loans. Foundations are funding efforts to develop secondary markets for this product and by themselves buying mixed-use loans and bonds.

The regulatory climate faced by smarter growth real estate development in many communities often discourages both developers and investors. Smart growth developers find they must negotiate over detail after detail. Many back away when they face impediments from planning, public works, and

transportation departments. It would be vastly easier to build if the number of mixed-use projects requiring special review could be reduced and time for review could be equivalent to that for conventional projects; if zoning and building codes were reformed (as described in this guide); if traffic engineers could add a menu of standards for pedestrian-scaled streets as an option; if more frequent transit service could be provided in higher-density corridors; and if city planners would bring in design professionals to advisory sessions at the first concept stage of new projects to explore ways to improve them. Foundations are supporting advocacy efforts in all of these areas.

Although each story in this guide reflects a unique context, there are some common lessons, especially for the cases where foundations tried to catalyze change in their communities. A few of the stories demonstrate how it is possible to have a positive impact through passive grants or investments, but most of the stories are about investment *combined* with leadership to catalyze local change. For these stories, the common factors that contributed to success were a champion on the foundation board; strong foundation staff who developed and implemented the strategy; active use of local knowledge and relationships both to develop and implement the strategy; specific research to ground the strategy in political and economy reality; expert help with due diligence; willingness to commit to long-term investment; strong local support (especially government support); a broadly held vision for change; good timing; patience and persistence; willingness to use all of a foundation's capacities and assets, including fact-finding, reaching out to other local leaders, convening, and financial investment; and willingness to accept some risk.

Becoming involved in local smart growth policy or development projects is not without risk. Planning can be controversial. Not everyone will like what a foundation does. Yet the foundations described in this guide have prospered and grown as they did this work. Most members of the community appreciated their even-handed leadership.

Every story in this guide is meant both to describe what foundations have done and to suggest what still needs to be done in many more places. Important next steps for policy and planning are to assist efforts to achieve supportive zoning, building, and infrastructure policies; improve coordination of advocacy for a better regulatory climate at the local, state, and federal level; support planning for keystone projects; reach out to the planning and development communities, and educate

appraisers. Next steps for investment are to invest in keystone projects; support the creation of smart growth funds; encourage investment managers to seek out one or two smarter growth real estate investments; and buy bonds and make insured deposits that support smart growth. Next steps for investment are to support analysis of project performance; support research on how to create better mixed-use, mixed-income, walkable communities; and support research on how to improve accounting for the value of placemaking in bond analysis, municipal accounting, etc.

Hopefully, this guide provides useful guidance about how to find local smarter growth real estate developments and how to engage investment managers in seeking out smarter growth real estate investments. For most of the stories in this guide, foundations found projects because they were well connected to what was going on in their region through their board and staff. They actively reached out and talked to leading developers who had completed smart growth projects, city agency staff, community development corporations, and local offices of the Urban Land Institute (ULI)³ and the American Planning Association (APA)⁴. They conducted research, held meetings, and convened local leaders and developers to figure out what projects and markets were ready. When heading down this path it is important to talk to the foundations and investment managers that are already investing in projects.

Engaging investment managers in seeking out smarter growth real estate investments requires leadership from a foundation's board and the chief executive. A first step can be to share this guide with the foundation's real estate investment advisor. It contains the evidence available right now about performance and referral information to respected real estate investment firms across North America that believe they can succeed in smarter growth real estate development. Another step is to stay in touch with the Funders' Network for Smart Growth and Livable Communities, which is maintaining a repository for all of the examples of foundations supporting smarter growth real estate development. Recent history suggests there will be more and more examples ahead.

³ The Urban Land Institute (ULI) is a nonprofit membership organization whose mission is to provide responsible leadership in the use of land to enhance the total environment.

⁴ The American Planning Association (APA) is a nonprofit public interest and research organization committed to urban, suburban, regional, and rural planning.

PART I:

Introduction

The Purpose of this Guide

Smarter growth real estate development can help to achieve a broad array of foundation program goals, from neighborhood revitalization to improved environmental quality. Meanwhile, real estate is accounting for a growing share of foundation investments, and real estate investors are coming to the realization that better planned places in 24-hour cities are where they should put their money. For all of these reasons, foundation CEOs and boards are having more and more discussion about real estate development patterns, smart growth, and livable communities.

With their broad set of assets, skills, and investment strategies, foundations are becoming leaders in addressing the regulatory and financial barriers to smarter growth real estate development. A few also are becoming leaders in investing in and demonstrating the performance potential of smarter growth real estate investments.

This guide presents stories about the many ways in which foundations are supporting and investing in smarter growth real estate development. Some foundations are using grants to achieve improvements in codes and planning. Foundations also are helping good projects to get built through grants and PRs. They are building the capacity of nonprofit developers, providing planning money, and filling funding gaps for the special features—parks, child care, and small retail—that ensure the success of transit-oriented, mixed-income developments (McIlwain 2003). Finally, some foundations are investing a part of their portfolio in private debt and equity investments and funds created to support smarter growth real estate development.

For each story, this guide provides a short description of the foundation; what the story illustrates/its smart growth features; the project story itself; the foundation's experience with the investment; lessons learned; and contact people for further information. These stories illustrate the three-legged stool on which smarter growth real estate development rests: good policy, good planning, and good projects. Each story focuses on one leg of the stool, but most of the stories include the other two legs.

Some context is needed to make the stories as useful as possible. The rest of this introduction has two

parts. The first part provides a brief definition of smarter growth real estate development. The second part presents the reasons for foundations to be conscious of smarter growth real estate development, especially at this time, both for their programs and for their investments.

The section that follows the introduction adds more useful context. It describes what is known about the performance of smarter growth real estate investment, the growth in the real estate market for smart growth investment, and the regulatory and institutional changes needed to allow supply to meet demand for smarter growth real estate investment.

The guide ends with a short list of suggestions for getting started with smarter growth real estate development and recommendations for next steps.

What is Smarter Growth Real Estate Development

The American Planning Association defines smart growth as using comprehensive planning to guide, design, develop, revitalize, and build communities that:

- value long-range, regional considerations of sustainability over short-term incremental geographically isolated actions;
- preserve and enhance valuable natural and cultural resources;
- equitably distribute the costs and benefits of development;
- expand the range of transportation, employment and housing choices in a fiscally responsible manner;
- promote public health and healthy communities; and
- have a unique sense of community and place (APA 2002).

Most people agree that smart growth calls for at least *locating* new development and accommodating growth through a process that considers regional impacts, uses existing infrastructure efficiently, and preserves natural and cultural resources.

Smart growth, beyond location, also is about creating vibrant, livable communities. It is the design of

communities that achieves high quality pedestrian-oriented experiences and contributes to a sense of community. This is why smarter growth real estate development often is undertaken as New Urbanism (New Urban News June 2002). According to the Charter for the Congress for the New Urbanism (CNU), in New Urbanism, neighborhoods are diverse in use and population; designed for the pedestrian and transit as well as the car; shaped by physically defined and universally accessible public spaces and community institutions; and framed by architecture and landscape design that celebrate local history, climate, ecology, and building practice.

For the purposes of this guide, smart growth requires some consideration of placemaking, but it does not specifically require new urban design. For example, the Bay Area Smart Growth Fund, an equity real estate fund managed by Pacific Coast Partners, does not stipulate the design or urban form of its investments. It defines smart growth as development focused in the urban core and inner-ring suburbs that supports a prosperous economy, quality environment, and social equity.

For the purposes of this guide, smart growth requires some consideration of placemaking, but it does not specifically require new urban design.

Therefore, the definition used in this guide of smarter growth real estate development projects includes a number of the recent examples of infill development in urban areas and first-ring suburbs, transit-oriented developments, brownfield redevelopment throughout regions, conservation developments, and greenfield developments that preserves land and creates walkable new communities physically connected to existing development in a region. Only a few of these examples represent the best of mixed use or mixed income or pedestrian access, but most are a step in the right direction.⁵

Why Real Estate Development that Conforms to Smart Growth Principles Should Matter to Foundations

Foundations have compelling reasons to be conscious of smarter growth real estate development, which can help them to achieve program goals, diversify investment portfolios, use program-related

investments strategically to increase impact and better manage assets, and help drive market transformation.

1. Achieving Program Goals

Smarter growth real estate development can help to achieve an array of foundation program goals. Various reports and studies show that smart growth is key to community development, affordable housing, historic preservation, green building, transit and transportation efficiency, better water and air quality, access to jobs and business investment, and stable communities with a high quality of life. For example:

- ***Community Development:*** According to Tony Proscio, a respected consultant to the community development field, smart metropolitan growth and neighborhood redevelopment are the same effort, being waged in two different places against the same enemy. The sooner the two camps align their forces against their common problem, the more effective they both will be (Proscio 2002).
- ***Environmental Justice/Brownfield Redevelopment:*** Concentrated poverty and environmental contamination in many urban core areas is reinforced by suburban sprawl and urban disinvestment. In one survey, community after community cited the same reasons for supporting brownfield redevelopment—improvements in health and neighborhood safety, increased property values, new job opportunities, *and* the reduction of sprawl (XL Environmental, Inc. 2002). In addition, mixed uses now comprise the majority of planned brownfield redevelopment sites, and planners within the smart growth movement know how to do mixed use well.
- ***Economic Efficiency/Good Government:*** Federal Reserve Governor Edward Gramlich has publicly stated that the United States could save \$250 billion over 25 years by adopting smart growth strategies over sprawl development (Federal Reserve Bank of Cleveland 2002). Research by the Real Estate Research Corp. and others documents that compact growth can be as much as 70 percent cheaper for governments than equivalent volumes of scattered growth because of lower costs to provide infrastructure and services to denser, more contiguous households than to far-flung, low-density communities (Katz 2003).

⁵The Funders' Network for Smart Growth and Livable Communities, the Congress for the New Urbanism, the Center for Transit-Oriented Development, the Urban Land Institute, and others have information about best practices on their websites (See Part VI: Getting Started on page 99).

- ***Economic Development:***

Economist Richard Florida has documented the increasing importance of talent, technology, and tolerance in a region's economic development strategy. Increasingly, firms are chasing talent and finding that talent is locating in diverse, lively urban regions. This is reflected in changing firms' preferences for locations. A recent Jones Lang LaSalle survey of New Economy companies found that access to mass transit was very important to 70 percent of companies (Center for Transit-Oriented Development 2003).

- ***Housing Affordability:***

Location efficient—mixed-use, dense, pedestrian-friendly, and transit-rich—neighborhoods allow residents to own fewer cars and lower their cost of transportation, allowing them to spend more on housing (Bernstein and Bullock 2002; Dunphy 2003). Apparently, housing in these neighborhoods also is less expensive to build: the average total savings per dwelling unit for smart versus traditional growth—close-in development, infill, a mixing of land uses, and cluster development—have been estimated at \$10,000 based upon studies in various locations (Burchell and Listokin 2001).

- ***Public Health (Obesity, Diabetes, and More):***

A growing body of evidence suggests that physical inactivity contributes to obesity and increased risk of disease and that proximity of housing to businesses, street design, density, and availability of public transit, pedestrian, and bicycle facilities play a significant role in the level of physical activity (Ewing et al. 2003; U.S. Office of the Surgeon General 1996). The Centers for Disease Control and Prevention (CDC) has developed an Active Community Environments initiative in response to these findings.

- ***Public Safety/Air Quality:***

A recent three-year study revealed poorer air quality and higher traffic fatality rates afflicting metropolitan areas that sprawl (Smart Growth America 2002). Cities such as Chattanooga, Tenn., first became adherents to smarter growth as part of a strategy to improve air quality.

- ***Watershed Protection:***

A recent report found that new urban developments in greenfields are more effective in incorporating watershed protection techniques than conventional developments, doing a better job in protecting open space and reducing polluted runoff (Berke et al. 2002).

- ***Aquatic Ecosystems Protection:***

A recent report funded by the Pew Oceans Commission, "Coastal Sprawl: The Effects of

Urban Design on Aquatic Ecosystems in the United States," notes that 25 percent of the acreage along the nation's coast will be in development by 2025, passing the environmental tipping point beyond which marine life significantly declines. The report suggests that New Urbanism and smart growth are keys to minimizing the damage (Beach 2002).

The American public is making the connection between these many concerns and smart growth. Growth-related issues for urban areas have been a top news item. In 2002, more than 16,000 articles related to urban sprawl and traffic congestion appeared in major news publications (Rosan 2002). Voters nationwide authorized \$5.7 billion in state and local initiatives to fund open space purchases last year (Dale 2003).

Real estate investment belongs in a diversified portfolio.

While the potential for smarter growth real estate development to help to achieve many social, economic, and environmental goals is great, achieving smart growth development is still a challenge. Despite growing demand, developers trying to offer more choices face restrictive zoning and planning regulations that limit density and mixed uses (Rosan 2002). It also remains hard to convince investors to take a risk with an unfamiliar and more complex product with a limited track record. How foundations can make progress on their program goals by helping to address these challenges is a subject of the next section of this guide.

2. Contributing to Portfolio Diversification and Investment Performance

"You'll find more and more money going toward urban environments."

— Stephen Ross, founder of Related Companies LP, New York City real estate manager and financier

"Ethnic, minority, and urban markets have long been underserved by traditional sources of capital."

— The Goldman Sachs Urban Investment Group

Smarter growth real estate investment is beginning to have a place on the investment side of foundations. Endowments are familiar with the need for strategic

asset allocation and diversification. According to the Council on Foundations, asset mix decisions can affect up to 90 percent of a fund's relative performance. This was the case for The McKnight Foundation in 2002 when, "diversification of investment and defensive strategies minimized losses" (The McKnight Foundation 2002).

Real estate investment belongs in a diversified portfolio. The John D. and Catherine T. MacArthur Foundation invests as much as 15 percent of its investment portfolio in real estate as a hedge against inflation, for diversification benefits (because returns don't correlate highly with stocks and bonds), and to produce high and stable returns. The Foundation has found that both privately held real estate and real estate investment trusts (REITs) tend to have relatively low correlation of returns with the stock market (Hoepfner 2000).

Real estate is accounting for a growing share of foundation investments. According to a Cambridge Associates 2001 report, 3.9 percent of foundation portfolios are invested in real estate today. According to a 2003 survey by Greenwich Associates, foundations are reducing their allocation to equities and increasing alternatives, including private equity, hedge funds, and real estate (Cohen 2003). Mercer Global Investment Forum concurs that endowments and foundations plan significant increases in their allocations to alternatives—equity real estate, private equity, venture capital, hedge funds, energy and natural resources, and debt strategies—over the next year, which generated approximately \$35 billion in new alternatives placements by the fourth quarter of 2003 (Holmes 2003).

Foundations are investing more in real estate because of strong income returns coupled with recent modest stock performance. The John S. and James L. Knight Foundation's \$100 million private real estate portfolio, 6 percent of its portfolio, made a positive contribution to 2002 performance. On a risk/return basis, core and core "plus" real estate for several years has outperformed other asset classes. New vehicles also have broadened the appeal of real estate investments. For example, REITs have provided greater scrutiny of such investments and dividends that appeal to cautious investors (Chen, Lachman, and Rice 2000). The growth of commercial mortgage backed securities (CMBS) also has imposed discipline on this market, reducing overbuilding and loan defaults (Miller 2002). Moody's Investors Service has developed a method for assigning real

estate fund ratings that provides consistent and comparable measures of portfolio quality and the strength of investment managers.

Foundations are investing more in real estate because of strong income returns coupled with recent modest stock performance.

Foundations also are investing more in real estate because they have found ways to manage the concern that income earned will be subject to unrelated business income tax (UBIT). While rental income from real estate, interest income on loans, and capital gains from the sale of real estate held for investment are generally exempt from UBIT, it depends on how the deals are structured, how a fund is structured, and whether the investor is a qualified investor. Private REITs may not be a problem because their dividends are exempt from UBIT (Commonfund 2000). While limited partnerships and limited liability corporations may be more vulnerable to producing income subject to UBIT, an increasing number of managers have become adept at managing this exposure. James Edwards, chairman of the board of The Marshall L. and Perrine D. McCune Charitable Foundation, has found that careful structuring of finances and use of intermediaries can help avoid such tax consequences (Fundors' Network 2001a).

Among real estate investments, smarter growth real estate development is getting positive attention. Institutional investors are slowly coming to the realization that better planned places in 24-hour cities are where they should be putting their money (Lend Lease and PricewaterhouseCoopers 2002). An additional advantage of the mixed-use projects that define 24-hour cities is their flexibility in volatile real estate markets. Developers can concentrate on the aspects of a project for which demand is strong (Steuteville 2002). With more "comparables" out there, more institutions now are willing to enter the market. The big homebuilders such as Toll Brothers, Pulte, and Ryan all expect to have some of their product line in "New Urban" communities (Steuteville 2002). Avalon Bay Communities, Inc., the highly respected New York Stock Exchange (NYSE) apartment REIT, tries to locate its assets in walkable locations, such as Ballston in the Washington, D.C.,

metropolitan area, at least in part because these unique communities create a natural barrier to competition. Colonial Properties Trust, the 2003 National Developer of the Year according to the National Association of Industrial and Office Properties, also sees the value of mixed-use development in the form of 5 to 10 percent rent premiums over single-use developments, a larger market share, longer-term leases, and higher occupancy rates than nearby developments (Culp 2003).

Even compared to six months ago, there are many more smart growth and urban real estate funds managed by well-respected real estate fund managers, including: Commonwealth Partners, LLC; CIM Group, LLC; California Urban Investment Partners; RREEF; Shamrock Holdings; Pacific Coast Capital Partners, LLC; UrbanAmerica LP; Cherokee Investment Partners LLC; American Ventures; and Goldman Sachs Urban Investment Group. For example, Goldman Sachs Urban Investment Group has made over \$97 million in investments in the past three years, including equity and mezzanine investments in rehabilitation and adaptive reuse projects in core urban, underserved markets. It is likely that many more funds and investment managers have invested in one or two smarter growth real estate development projects because of their investment quality (Langdon 2002). If they were asked, many additional real estate investment firms could identify smarter growth real estate development projects for their clients.

Among real estate investments, smarter growth real estate development is getting positive attention.

Because most smart growth funds and, more generally, urban real estate funds, are new, they do not yet have a track record. *Yet*, most of the investment managers for these funds have a long track record and there are many individual examples around the country of smarter growth real estate investments that are viewed as good investments. Some of these are described in the next section.

Pension funds are the institutional investors that have led the way on smarter growth real estate investments, especially investments in urban, inner-city real estate development (Ragin int. 2003).

CalPERS, California State Teachers' Retirement System (CalSTRS), New York Common Retirement, and Los Angeles County Employees' Retirement Association (LACERA) all are making these "double bottom line investments," using their existing underwriting standards for real estate investments. They are looking for not only social returns, but also experienced management and a good business case. These pension fund investments are a sign of the credibility and potential of smarter growth real estate investment for institutional investors. Some of these investors, including CalPERS, have adopted smart growth criteria for such investments, including a mix of uses; compatible surrounding land uses and densities; environmentally clean or manageable remediation; access to public and private transportation routes, housing, retail services, and amenities; and benefits to businesses, employees, or residents of low-to-moderate-income areas, or underserved markets. The California Public Employees' Retirement System has \$1.6 billion in urban investments, or 1.2 percent of its assets (Palmeri 2003).

All of these factors suggest that smarter growth real estate investments have a place in a diversified foundation investment portfolio. Some foundations are starting to invest, while others are waiting to see how the relatively new funds fare. A few are making their first investments as PRIs to demonstrate the quality of these investments and use these successes to build their confidence in market-rate investments (Dunlap 2001).

3. Using Strategic Program-Related Investments to Increase Impact and Better Manage Assets

Congress, in the Tax Reform Act of 1969, created the term program-related investment (PRI). A PRI is any investment by a foundation that meets four tests:

1. The primary purpose of the investment is to further the exempt objectives of the foundation;
2. Producing income or appreciation of property cannot be a significant purpose (a prudent investor seeking a market return would not enter into the investment);
3. It is not used to lobby or support lobbying; and
4. The PRI may not generate "significant private inurement" for any individual or corporation, generally defined as economic benefit beyond ordinary and usual compensation for services (Brody et al. 2002).

Program-related investments in smarter growth real estate development can support everything from affordable housing to historical preservation to community facilities, such as childcare.

Brody Weiser Burns, a leading PRI consultant, has observed a recent rise in foundation interest in real estate PRIs and in near-market-rate private placement real estate. Real estate is more familiar to foundations than it was in the past. Also, more nonprofit intermediaries have built a track record in inner-city commercial real estate development and are consistently repaying PRIs. More grantees are familiar with PRIs and requesting them. In addition, in a time when grant budgets are down, PRIs provide a means to continue to have a high program impact. This is because PRIs can leverage private investment and they can be recycled over and over (Brody int. 2003).

Program-related investments in smarter growth real estate development can support everything from affordable housing to historical preservation to community facilities, such as childcare.

Program-related investments have become a useful tool for endowment management for some private foundations. Many foundations suffered endowment declines of as much as 20 percent due to stock market conditions over the past several years. Trustees of private foundations are concerned that meeting the annual 5 percent distribution requirement will further erode endowments, impairing the ability of foundations to be there to meet long-term community needs. Because (1) a private foundation's PRIs are excluded from assets when the 5 percent distribution is calculated, (2) most PRIs today are repaid, and (3) most PRIs have terms of three-to-five years, some foundations are enlarging their PRI portfolio as a means of preserving endowment during this time of weak investment performance (Association for Small Foundations 2003). When the PRIs are repaid, often three-to-five years later, the repayment is added back into assets to calculate the distribution requirement. Therefore, PRIs can not only be high impact charitable investments, but also help to smooth out market impacts on endowment, preserving assets in the short run that a foundation

can decide to distribute as grants in the future once endowments stabilize.

Finally, some small foundations are using PRIs to help manage the volatility of their investment portfolios. Program-related investments made to experienced nonprofit borrowers can produce stable returns. When interest rates are high, the spread between PRIs and bonds can be large. Yet foundations have found that they make a very small concession in rate in the current interest rate environment. For private foundations, the concession is even less than it initially appears. Because the amount a private foundation must pay out in grants is figured after subtracting outstanding PRIs from assets, a foundation in essence earns an additional 5 percent on its PRI investment, raising a 3 percent rate of return on a PRI to 8 percent.

4. Using Strategic Real Estate Investments to Drive Market Transformation

"You need to have a local place where the city council, city manager, parks guy can go within a day's drive to really look at and go, oh, now I see what you're talking about."

— Will Fleissig, Developer

"Foundations historically have gotten involved when markets don't work, such as housing markets for lower income people. For smart growth real estate investment, the market doesn't work for different reasons, but foundations still can play a pivotal role."

— Hank Dittmar, Reconnecting America

Nearly \$1 out of every \$8 under professional management in the United States today is involved in socially responsible investment, i.e., identifying and investing in companies that meet certain baseline standards or criteria (Social Investment Forum 2001). Still, the best estimate is that fewer than 15 percent of foundations screen any part of their investment portfolios, and much of that screening involves only tobacco. The firewall between investments and program is solid. While foundations are increasingly focused on accountability and impact, they continue to only look to the program side for impact. When the Center for Effective Philanthropy interviewed foundation CEOs about investments, none said that social impact was an investment factor and all felt that any consideration other than investment performance could interfere with their goal of maximizing dollars available to achieve program goals (The Center for Effective

Philanthropy 2002). Likewise, few foundations have pursued the Unified Investment Strategy proposed by Jed Emerson⁶ (Emerson 2002).

A small, but growing, number of foundations are considering investments in local smart growth real estate projects because they see the potential for strategic investments made now to help transform the market. It is hard to get disinterested investors to enter a new market with no comparables and little evidence of market demand. Built examples encourage additional projects and make it easier for them to obtain permits (Steuteville 2002). By investing in and drawing attention to smarter growth real estate development projects, foundations can help to change market perceptions.

In the United States, as much as one-third of the built environment will be torn down or renovated between 2002 and 2025. In addition, when new population growth is factored in, at least one-half of the development needed by 2025 has yet to be built.

Strategic foundation investments can make a particular difference in the next decade because of real estate trends. In the United States, as much as one-third of the built environment will be torn down or renovated between 2002 and 2025. In addition, when new population growth is factored in, at least one-half of the development needed by 2025 has yet to be built. If new ideas for development patterns can be demonstrated now, it will be possible to have a particularly large impact (Rosan 2002).

The current building boom in rail and bus systems also increases the potential to change development patterns by demonstrating the value of smarter growth real estate development. Over the past decade, new light rail, commuter rail, and rapid bus systems have opened in many metropolitan areas, including many of the high growth, Sun Belt cities. New rail or rapid bus systems are in the planning or construction phases in virtually every major metropolitan areas (Reconnecting America 2004). Smarter growth real estate development can be encouraged at stations that are part of these projects.

Also, across the United States, state and local governments, with the support of voters, are

creating tools and programs to support smarter growth real estate development, including trust funds to preserve open space and develop affordable housing. Transportation tax referendums are coming before voters. Regional agencies are being formed to coordinate land planning and transportation (Rosan 2002). And local governments are updating zoning ordinances.

Foundations exert sufficient influence among investment managers that they can gently nudge the market for smarter growth real estate development with minimal changes in investment activity.

Some foundations are making keystone investments themselves, while others are turning to their investment professionals. Foundations exert sufficient influence among investment managers that they can gently nudge the market for smarter growth real estate development with minimal changes in investment activity. The Foundation Center estimates a total endowment base of foundations of about \$360 billion (Raymond 2000). Based upon the figures from Cambridge Associates 2001, total foundation investment in real estate is about \$14 billion. Foundations could have a large impact on the market simply by asking their fund managers to look for a single smart growth real project as part of a portfolio of 15 properties (Crowe 2001).

⁶ Jed Emerson is a leading thinker regarding nonprofit social entrepreneurship, a lecturer in business at the Graduate School of Business at Stanford University, and the former Bloomberg Senior Research Fellow in Philanthropy at Harvard University.

PART II:

Seizing the Opportunity—Achieving a Breakthrough for Smarter Growth Real Estate Investment

There is a growing body of evidence that smarter growth real estate development could dramatically increase its market share in the next decade, and that foundations can contribute to a breakthrough for smarter growth real estate development. It is based upon information about trends in the real estate markets for smarter growth real estate development, the performance of these projects, and the regulatory and institutional changes *beginning* to level the playing field so that supply can meet demand for smarter growth real estate development.

The Demand Side: Trends in the Real Estate Market for Smarter Growth Real Estate Development

There is growing evidence that the market is hungry for special spaces in urban areas where people can live and walk to entertainment and work (Langdon 2002). Infill development now accounts for 10 to 20 percent of all new development in the United States (Myers et al. 2001). Over 472 New Urbanist projects are on the ground in the United States. Many of the new projects are Hope VI⁷ or other public housing redevelopments, brownfield redevelopments, and greyfield developments (redevelopments of older, economically obsolete, regional shopping malls).

According to *New Urban News*, which tracks these projects, the number of neighborhood-scale new urban projects in the United States continues to grow despite a sluggish economy. There are 213 New Urbanist projects of 15-acres or larger under construction nationally. This figure represents a 25 percent increase in projects annually for the past four years, including a 37 percent leap from 2000 to 2001 (New Urban News October/November 2001).

Demographic changes suggest that demand for New Urbanist and, more generally, smarter growth real estate development will continue to grow. Recent research by Dowell Myers and others at the University of Southern California projects that demand for dense, walkable neighborhood housing will increase strongly during this decade (2000-2010) compared to the 1990s (Myers et al. 2001). Homebuyers and lifestyle renters who prefer denser, walkable residential developments are projected to comprise from one-third to one-half of housing consumers by 2010

(Myers et al. 2001). Households with children—those most likely to choose detached houses in sprawl areas with “good” schools—will decline from 34.5 percent of all U.S. households in 1995 to 28.2 percent by 2015. Together, aging baby boomers, households with fewer children, and “lifestyle renters” (generally older households with high disposable incomes, able to own but who prefer to rent) will increase demand for mixed-use urban housing, including rental apartments and townhouses in urban centers.

Demographic changes suggest that demand for New Urbanist and, more generally, smarter growth real estate development will continue to grow.

Urban Land Institute (ULI), the national membership organization of real estate professionals, echoes these findings. According to ULI, there is a surge in the number of U.S. households without children, and these households are unlikely to want the large single-family housing that has been built in the United States for the past 50 years. The Urban Land Institute also points to the continued rise in immigrant households. Of the additional 25 million households that will be formed in the United States by 2020, nearly 12 million will be immigrant households, including three million Asian households. These households, which are increasingly choosing smaller cities in which to locate, generally are seeking mixed-use neighborhoods with good transit access (Rosan 2002).

Professor Larry Frank, formerly at Georgia Tech and now at the University of British Columbia, recently completed one of the most comprehensive housing preference studies ever done, finding that 37 percent of people living in suburbia today want to live in an urban setting (Frank 2003).

⁷ The federal HOPE VI Program was developed as a result of recommendations by the National Commission on Severely Distressed Public Housing, which was charged with proposing a National Action Plan to eradicate severely distressed public housing. The Commission recommended revitalization in three general areas: physical improvements, management improvements, and social and community services to address resident needs.

Because of this demand, New Urbanist projects have been among the top sellers in many markets in recent years, including Celebration in Osceola County, Fla.; Abacoa in Jupiter, Fla.; McKenzie Towne in Calgary, Alberta; Lakelands in Gaithersburg, Md.; and Orenco Station in Hillsboro, Ore. While none of these projects rank among the top projects nationally in sales volume, they are out-performing many local competitors (Steuteville 2002). This is also true for some conservation developments, such as Prairie Crossings northwest of Chicago. Whether the supply of smart growth real estate will be able to meet this demand is still uncertain. As described later in this section, there are important efforts underway to eliminate regulatory, institutional, and financial barriers.

What is Known About the Performance of Smarter Growth Real Estate Development

“Nothing is as persuasive to investors as solid information about performance.”

It is still difficult to make broad statements about the investment returns for smarter growth real estate development. A comprehensive analysis of performance is not available. No one is systematically tracking project returns. Some measurement problems have not been resolved. Many projects are still very new and have not been through a complete real estate cycle (Anderson int. 2003).

One of the complicating factors in evaluating performance is that larger, more complex, smarter growth real estate developments can have higher up-front costs than standard developments of the same scale. The added complexity and cost of these smarter growth real estate development projects comes from the effort to create a quality place. It requires more planning to integrate uses and create architectural harmony. It requires more money up front to achieve the pedestrian scale of the street, walking distances to stores and other uses, a variety of building types, and places where people can congregate (Belzer and Sigal 2002; Steuteville 2002). Also, smart growth developments tend to be within or near developed areas, where land is often more expensive than at greenfield sites and where there are more affected stakeholders, which can complicate the entitlement process (Belzer and Sigal 2002).

One key question is whether these higher costs translate into greater value. There is some basis for expecting the quality urban neighborhood to create

higher value in the long run than the comparable conventional project. The added value comes from the many features and choices in these neighborhoods—homes, shops, workplaces, civic elements, and placemaking features—which make it look and work better, be a more desirable place for people to locate, and be a more difficult place to replicate (Belzer and Sigal 2002; Steuteville 2002). *New Urban News* editor and publisher Robert Steuteville points out that the highest real estate values historically have been in the downtowns of New York, San Francisco, Chicago, and Boston. Pedestrian-oriented places in the suburbs, such as downtown Lake Forest, outside Chicago, and the Harvard Square area in Cambridge, Mass., also have seen as high or higher commercial rents than regional malls in the same areas (Steuteville 2002).

The new generation of revitalized downtowns and town centers is continuing this precedent of higher relative rents and sales prices. The neighborhoods of Downtown Denver, Uptown Dallas, and Midtown Atlanta, which were all depressed 20 years ago, now are attracting high relative real estate prices for their metropolitan areas. In Albuquerque, N.M., Christopher Leinberger, a New Urbanist developer, originally projected retail rents of \$18 to \$19 per square foot for a major New Urban downtown development and is now getting between \$23 and \$27, more than double the rent that was being paid for existing retail space (Steuteville 2002).

Greenfield suburban developments, such as Reston Town Center in Northern Virginia and Carillon Point in Seattle, also are exhibiting the relatively high value creation potential of pedestrian-oriented development compared to conventional development in the same market area. In a weakening rental environment where more than 10 percent of the Denver metropolitan area’s apartments were vacant, Highlands’ Garden Village, a new walkable neighborhood, had a rental occupancy rate of 98 percent, a lower than average turnover rate, and home sales for prices sometimes far above initial estimates (Steuteville 2002). In the words of Christopher Leinberger, “high value residential has followed the commercial in each of these cases since a ‘there there’ has emerged” (Leinberger 2001b).

When Joseph E. Gyourko and Witold Rybczynski of the Samuel Zell and Robert Lurie Real Estate Center at the Wharton School of the University of Pennsylvania surveyed developers, financiers, and investors about New Urbanist developments, they

found few respondents believed the extra costs associated with New Urbanist projects to be much above 10 percent of overall project value, and some believed them to be less. In addition, neither equity investors nor lenders perceive this to be a major obstacle to the financing of well-conceived projects (Gyourko and Rybczynski 2000). Rybczynski, the editor of the *Wharton Real Estate Review*, found that Seaside, Haile Village Center, and Lakelands have been highly profitable for their developers and that any premium in costs for these projects appears to be covered by the increase in value attached to the projects (Gyourko and Rybczynski 2000). In a 1999 study, Professor Mark Eppli of George Washington University found that although back alleys, a denser street grid, finer design details, and community amenities raised costs for developers, the cost per lot was usually comparable because of higher housing densities (Eppli 1999).

In 1999, the Urban Land Institute and the Congress for the New Urbanism sponsored a study by Professor Eppli which compared four new urban communities to conventional subdivisions in their respective ZIP codes. The study found that buyers were willing to pay an average of \$20,000—an 11 to 15 percent premium—more for homes in communities with new urban design over typical cul-de-sac developments in the same communities (Eppli 1999).

In a survey of eight town centers, real estate writer Charles Lockwood found that new centers produced revenues of 5, 10, and even 20 percentage points higher than single-use shopping centers in their respective regions (Lockwood 2003). Yet Lockwood did not compute rates of return and the town centers cost more to build than conventional shopping centers.

Charles Bohl, Director of the Knight Program in Community Building of the School of Architecture at the University of Miami, also conducted a recent survey, concluding that town center housing has been very strong in a wide variety of markets, with rental rates, sales, and resale of properties exceeding expectations (Bohl 2003). The strong demand has included housing above retail and offices at Miami Lakes, Haile Village Center and Mashpee Commons and live/work units at Orenco Station and Kentlands (Adams 2003).

A whole separate set of studies has analyzed the impact of locating development near transit on value. Since access to public transportation is a feature of smarter growth real estate development, these studies also are relevant. Research has shown that medium

density units located close to train stations have more frequently and consistently experienced higher property value gains than single-family units. The increase in commercial land value also has been significant. Case studies have found increases in residential land values and rents and commercial and office rental rates of 10 to 20 percent in vicinity of rail stations. Improvements in assessed residential land value and commercial land values have been found as early as the period immediately following station selection (Cervero and Duncan 2001).

Recent research also suggests that mixing housing types produces higher value than traditional single-family development, at least in working communities. Working communities are neighborhoods of people who earn ordinary incomes. This includes firemen, nurses, teachers, office workers, and policemen, among others. Data from the United States censuses of 1970, 1990, and 2000 show that working communities with multifamily dwellings have higher house values than other types of working communities (Von Hoffman 2003).

Research has shown that medium density units located close to train stations have more frequently and consistently experienced higher property value gains than single-family units.

Finally, leading real estate observers, such as Lend Lease and PricewaterhouseCoopers, have been making the case that smarter growth real estate development projects not only produce strong long-term returns, but also sustain their performance better. In “Emerging Trends in Real Estate 2002,” they wrote that, “Areas with sensible zoning (integrating commercial, retail, and residential), parks, and street grids with sidewalks will age better than places oriented to disconnected cul-de-sac subdivisions and shopping strips, navigable only by car” (Lend Lease and PricewaterhouseCoopers 2002).

These are all positive indications that the performance of smarter growth real estate development can be as good or better than comparable conventional development. Yet a great deal more systematic analysis is needed to draw firm conclusions. And one more key question must be addressed.

This second question is whether the market will make investments in development projects that take longer to build value (even if they achieve a higher value). Short-term performance of smart growth projects can be inferior to nearby conventional development, as was the case for Mizner Park in Boca Raton, Fla.; Hyde Park in Tampa, Fla.; Valencia Town Center north of Los Angeles; The Avenue northeast of Baltimore; Harbor Town in Memphis, Tenn.; and Seaside in Florida. It took time for these projects to achieve the critical mass necessary to ensure success and produce strong financial returns. For example, lots at Seaside initially sold for \$15,000 in 1984 and only 20 were sold in the first two years. Once potential buyers could see the human scale community emerging, sales pace and prices escalated. In 2000, a similar sized lot sold for \$1.4 million and, then, a year later, for \$2 million (Leinberger 2001b). Efforts to address this issue are discussed in the next section of this guide.

The Supply Side: Addressing the Barriers to Meeting Demand for Smarter Growth Real Estate Investment

Smarter growth real estate development faces daunting financial, regulatory, and institutional barriers. It is not easy to meet the growing demand. Steps are being taken to address these barriers, and foundations are playing a role in each case.

A. Removing Financial Barriers

Providing Comparables

Mixed-use, pedestrian-oriented development remains difficult to finance because the projects do not fall into standard real estate product types (Belzer and Sigal 2002). Nevertheless, as more projects have been built in more markets, real estate investors have become more comfortable with smarter growth real estate developments. According to Jonathan Rose of Jonathan Rose & Companies, LLC, a New Urbanist developer, a completed project creates a market comparable and makes it much easier going forward. After Rose renovated the historic Denver Dry Goods Building and investors saw that there was a market for apartments and retail downtown, other developers followed suit, eventually rehabilitating more than 20 buildings downtown (Swope 2003). Foundations in a number of regions have taken the lead in supporting market-changing keystone projects, including Albuquerque, N.M., Baton Rouge, La., Chattanooga, Tenn., and the Bay Area of California.

Documenting the Value Gap for More Complex Smart Growth Projects

Some infill projects are quickly completed and as quickly achieve their full value. Yet more complex infill and most greenfield smart growth projects take time to build a market and achieve their full potential. In the early stages of these projects, a “value gap” exists. The initial value of the project is lower than its long-term value. A project that transforms its neighborhood, attracting new investment and residents, will tend to have a much lower value and lower returns when it starts out than it will several years down the road (Belzer and Sigal 2002). As pointed out by Dena Belzer, a real estate economist, this “value gap” results from testing new markets that have not been established, either through design innovations, such as higher-density units, or through location, such as suburban downtown areas or brownfields (Belzer and Sigal 2002).

Emerging stories about the performance of specific smarter growth real estate development projects help educate developers and investors about the value gap, but are not sufficient. More systematic data collection is needed to help the financial community understand and better evaluate these projects (Gyourko and Rybczynski 2000). Both the Congress for the New Urbanism and the Center for Transit-Oriented Development have funding to begin to analyze the value of placemaking, so that financial markets can begin to account for it.

Building Investor Interest in Longer-Term Returns

Even if investors believe that smart growth projects will produce higher cash flows in the long run than conventional development projects, it can be difficult to attract capital because of the discounting of future cash flows. When Gyourko and Rybczynski of the Zell/Lurie Real Estate Center at the Wharton School of the University of Pennsylvania surveyed developers, financiers, and investors about New Urbanist developments, they found higher perceived risks of complex, mixed-use developments, which translated to higher required rates of return and a larger discounting of future cash flows.

When most real estate equity investments are for seven years or less, it is difficult to convince investors that higher long-term returns and more stable and increasing value are worth the wait. Gyourko and Rybczynski point out that for a real estate project with a required rate of return of 18 percent, the present

value of a dollar five years from now is only 44 cents and the present value of a dollar ten years from now is only 19 cents. When higher hurdle rates are applied to mixed-use developments that are expected generate more cash flow in the mid or long term, investors conclude that the projects are not financial viable.

Smart growth developments need to attract more patient investors with lower hurdle rates. The cash flow from a long-term investment in a smart growth development project may be a good match for an investor needing to match long-term liabilities, such as a pension fund or foundation (Belzer int. 2003). These investors also may have a lower hurdle rate for investing, making longer-term projects more viable. Joseph Gyourko has urged New Urbanist developers to build relationships with pension funds and endowments (Gyourko and Rybczynski 2000). Chris Leinberger, a New Urbanist developer, has offered patient capital sources a large stake in the back-end value of several of his New Urbanist projects. One such investment by the McCune Charitable Foundation is described in this guide. Smart growth developers also are carefully structuring projects so that some component of the development generates cash flow quickly and can attract investors who require quick returns.

Facilitating Secondary Market Purchases of Mortgages for Mixed-Use Buildings

Most smarter growth real estate development projects include a mix of uses, including residential, commercial, and office. Even though long-term debt is available for many mixed-use projects, it is constrained because secondary market makers Fannie Mae and Freddie Mac won't purchase loans with more than a small percentage of nonresidential uses. There is evidence that banks would provide more commercial and mixed-use mortgages if they could sell them (Altman int. 2002).

There are alternatives to Fannie Mae and Freddie Mac, including the conduit securitization vehicles operated by many large banks, life insurance companies, thrifts, and pension funds. But there is market resistance to the custom crafting required for mixed uses (Burchell and Listokin 2002). Still, there seems to be some room in these private pools for mixed-use product, although the pricing may not be as attractive as for more plain vanilla multifamily loans (McSherry 2002).

Because there is some ability to sell mixed-use product in the private secondary markets, there also

is potential to grow the market. What is needed to move ahead is rigorous study of the potential demand for the product, including how many transactions have been done and are held by different banks, and its performance. With the market study in hand, the next step would be to approach investment banks to see if one would be willing to put together a securitization and what enhancements might be required (Isen int. 2002).

Foundations also can help by expressing an interest in buying mixed-use mortgages to banks and agencies from which they purchase mortgage-backed securities (Swope 2003).

They also can bring together banks and secondary mortgage market leaders to break the stalemate over who will go first. Banks need to know they will be able to sell mixed-use loans in the secondary mortgage market before they make them. Investors say they are waiting for the banks to make the loans (Swope 2003). Foundations, as bond investors, can use their position to broker market change.

B. Improving the Regulatory Environment

As many proponents of smart growth have pointed out, rigid zoning and building codes are serious impediments to the creation of pedestrian-oriented mixed-use communities. Smart growth developers usually find they must negotiate over detail after detail (Swope 2003). Many developers back away given these impediments caused by planning, public works, and transportation departments (Steuteville 2002).

In much of the country, the codes and zoning requirements that hinder smart growth projects are slowly changing, although often too slowly given the current window of opportunity and, usually, only for individual districts, such as downtown business districts (Langdon 2003). Will Fleissig, a New Urbanist developer, summarizes the key regulatory changes required as follows (Fleissig 2003):

- ***Rezoning for mixed-use destinations:***
Ninety-five percent of all New Urbanist projects today require special review. If this could move to 75 percent special review and the time for special review of mixed-use projects could be halved—because these projects typically take twice as long as other projects take—then it would become vastly easier to get these projects built.
- ***Pedestrian-scaled street standards:***
The standard street today is not the walkable street. Heads of traffic engineering need guidance so that, even if they are not going to change their overall

standards, they can add a menu of commercial and residential skinny street and landscape standards as an option for certain situations.

- ***Transit frequency in higher-density corridors:*** Frequent service is needed to get people to use public transit, and it can be justified for higher-density corridors. Service is frequent enough when people don't carry a train schedule around because they know a train will soon arrive. The evidence is that the benefit of transit is achieved when there are ten-minute intervals for trains, but many high-density corridors today have 30-minute intervals. Transit frequency needs to rise in high-density corridors where it makes sense.

- ***Project review to incrementally improve development projects:***

Typical design review is done by planners who often are not trained in design. Without this training, it is very difficult to exercise discretion in using guidelines. It would help a great deal if cities would hold an advisory session at the first concept stage of new projects (as part of the permit fee) to explore design ideas. Some cities even may be willing to delegate design review authority to a public-private mandatory review entity, which would include the head of planning, but also developers and design professionals.

The principles for code reform adopted by the Congress for the New Urbanism add some valuable specifics to the rezoning recommendation (Russell 2002):

- ***Principle 1:*** Revise dimensional regulations so that buildings and street layouts effectively shape the street as a public space (setbacks, height requirements, block lengths).
- ***Principle 2:*** Revise parking requirements so that the parking of cars does not interfere with the creation of high quality public spaces (minimum parking requirements, shared parking, location of parking, access to parking, landscaping of parking, offer alternatives transportation modes).
- ***Principle 3:*** Design streets and associated sidewalks, planting strips, street furniture, and street trees to create an attractive public realm that is friendly to pedestrians (street and sidewalks widths, street design speeds, pedestrian cross-walks, interconnections).
- ***Principle 4:*** Allow a variety of uses to create vitality, synergy, and enhance the pedestrian experience (mixed-

use districts and buildings, location of civic buildings, illustrated design standards, ground-floor retail).

- ***Principle 5:*** Create a streamlined review process for projects that meet the smart growth requirements in local regulations.

Efforts are underway in many cities to rewrite codes with some of these features (and with strong foundation support for public interest participants). The city of Chicago is rewriting its entire zoning code to revive pedestrian life in downtown and in neighborhood shopping districts, although it is keeping the same basic zoning conventions. Zoning will require that new buildings fit into the character of neighborhoods, with front yards and buildings of the same scale. Height limits will prevent new houses from towering over old ones. New homes will be required to have a green backyard, not a paved one, and builders will not be allowed to substitute a new creation known as a "patio pit" for a front yard. Garages will be expected to face an alley—not the street—and blank walls along the streetscape will be prohibited. The new code also tries to revitalize dying neighborhood commercial streets by letting developers build housing there (Swope 2003). Groups such as the Metropolitan Planning Council, which have given substantial input on the new code, have been funded by a variety of Chicago area foundations.

A number of foundations have supported the development of better codes and regulations at the city, county, and state level. Many additional reform projects would benefit from foundation support.

A few communities, like Arlington, Va., are experimenting with a zoning concept that came from the New Urbanist movement, the form-based code. The form-based code specifies physical patterns rather than specific uses (Swope 2003). Arlington's county board adopted a voluntary "form-based" zoning code for a 3.5-mile corridor known as Columbia Pike. County planners want to convert Columbia Pike, a suburb lined with strip malls and parking lots, into a walkable, commercial

thoroughfare with ground-floor retail and offices and apartments above. The development of the form-based code began with a charrette, a set of meetings of residents and designers to gauge public wishes. The charrette resulted in a dense version of the classic American Main Street. Using the results of the charrette, the community began to write the code, using visuals to show the form that buildings should take (Pierce 2003). While the form-based zoning code is voluntary, developers are coming forward because they have the assurance of faster permit approval, shared parking, and parking incentives (Steuteville 2003).

Nashville-Davidson County, Tenn., is one of the first places to begin to incorporate another approach to zoning, called the Smart Code, into its planning process. Proponent Andres Duany, a prominent New Urbanist architect, believes that it is not only buildings should be coded according to physical form, but also that entire metropolitan regions should be thought of this way. Duany suggests that conventional zoning has failed to maintain important distinctions between types of places, from the urban core, to more dense urban neighborhoods, to suburbs, to wilderness. When suburban building forms encroach on wilderness, the result is sprawl. When they encroach on urban areas, the result is lifeless downtowns. The Smart Code is intended to help planners think about how one part of the city fits into the region, and how to zone accordingly (Swope 2003). Nashville-Davidson County has adopted plans based upon the core Smart Code concept, the Transect, and is now working on code issues for implementing the plans. Another community, Vicksburg, Miss., hopes to be the first city to adopt the Smart Code for the entire city (Langdon 2003).

A number of foundations have supported the development of better codes and regulations at the city, county, and state level. Many additional reform projects would benefit from foundation support.

PART III:

Foundation Opportunities for Smarter Growth Real Estate Investment

Foundations have found many different ways to support smarter growth real estate development. The stories in this section of the guide include grants, PRIs, loan guarantees and other credit enhancements, creative occupancy of real estate, deposits, and market-rate equity and debt investments. There are examples from community foundations and private foundations, both small and large. For each story, the guide provides the following information:

- About the Foundation;
- What the Story Illustrates/Smart Growth Features;
- The Story;
- Results from the Foundation Perspective;
- Foundation Lessons Learned; and
- Contact People.

The stories are organized by what tool the foundation used to promote smarter growth real estate development. They appear in the following order:

I. Grants that Improve the Conditions for Smart Growth

Foundations are uniquely positioned to use grantmaking to enhance the potential for smarter growth real estate investment. Indeed, strategic grants, complemented by local leadership, can have a profound impact on the environment for smarter growth real estate development. Foundations have used grants in creative ways to enable smarter growth real estate development, including building awareness, nurturing capacity, improving policy, supporting effective planning, and providing seed investment.

II. Program-Related Investments

Program-related investments, which were defined on page 9, have traditionally been used to make loans, loan guarantees, deposits, and equity investments for affordable housing and community development. Growing interest in emerging (inner-city) markets is contributing to a surge in foundation interest in program-related investments. It is leading to a broad range of examples of PRIs to spur smart growth housing and retail development. At least in part, this is in recognition of the positive role that a pedestrian,

transit-oriented, and mixed-income environment plays in housing affordability and stability, and the dire need of many low-income communities for retail services. Program-related investments also may seem the most comfortable pathway into market-rate investment in smarter growth real estate development.

III. Loan Guarantees and Credit Enhancements

Loan guarantees involve the use of a foundation's financial resources to assure the repayment of a loan made by a third party. In effect, the foundation increases the amount of credit available to the recipient by assuming all or part of the lender's risk. The foundation might pledge to repay all or part of a loan, but may not disburse any funds until the pledge is called upon. Alternatively, a foundation may set up a special account to fund the guarantee. In either case, the foundation's risk is proportional to the amount of the guarantee (Baxter 1997). The guarantee does not constitute a PRI and grant distribution credit cannot be taken unless the pledge is called (Chernoff 2000). Often investors are willing to reduce the guarantee as projects mature. And, if the project performs well, future investors may not even require a guarantee. In this way, loan guarantees can contribute to market transformation.

IV. Creative Occupancy of Real Estate

Just the presence of a foundation in a neighborhood can have a halo effect, attracting retail shops and improved housing. For example, a foundation can become a credit tenant for a new mixed-use redevelopment project, improving its prospects for financing. Or, if the foundation builds a large enough building, it may spur redevelopment by providing an example of what is possible. If the building is combined with specific initiatives to spur community development, it is possible to begin to revitalize a community. A foundation also can affect community vitality by providing space for meetings or even leases for community organizations.

V. Deposits

Deposits and deposits in designated development accounts encourage conventional lending institutions to make particular kinds of loans to

particular borrowing organizations in exchange for deposits, sometimes on favorable terms. The deposit is linked to an agreement by the bank to make a loan or pass-through a subsidy to a particular borrowing organization (Baxter 1997). South Shore Bank in Chicago used this concept when it created its Development Deposits program in the 1970s. Using deposits, community development financial institutions (CDFIs) across the United States are soliciting deposits from foundations and other social investors and using the proceeds to invest in revitalization projects that have many smart growth features.

VI. Market-Rate and Close to Market-Rate Equity and Debt Investments

Market-rate investments deliver the same risk-adjusted returns as other investments from the same asset class. In the case of smarter growth real estate development investments, they may have higher transactions costs and risk up front, but will appreciate in the long run to produce appropriate risk-adjusted rates of return. Real estate belongs in a diversified portfolio. And a growing segment of real estate analysts recognize the ability of smart growth real estate to preserve value better than conventional projects. There are increasingly strong investment opportunities available to foundations for smarter growth real estate investment, and respected investment managers with experience in smarter growth real estate development. A small number of foundations are encouraging their investment managers to look for smarter growth real estate development projects to add to their investment portfolios.

Foundations have made equity investments in specific buildings on their own. They have invested in limited partnerships and limited liability corporations undertaking multi-block downtown development projects. They also have purchased shares of pooled smarter growth real estate investments funds.

On the debt side, foundations need only indicate their interest in projects that have particular smart growth features. It is easy to purchase investment grade or equivalent bonds to support smarter growth real estate development, including asset-backed securities from Habitat for Humanity, Community Reinvestment Fund bonds (including some for mixed-use real estate), Federal Housing Administration (FHA), Fannie Mae, and Freddie

Mac mortgage pools, housing related paper issued by state authorities, and taxable municipals for economic development. There also are investment advisors who specialize in such transactions, such as CRAFund Advisors, which manages portfolios with performance tied to the Lehmann Brothers bond index (Ragin int. 2003). An example is the investment by the AFL-CIO Housing Investment Trust (HIT) in the conversion of the Otis Terminal Building in Cleveland's Historic Warehouse District into 249 units of market-rate rental housing, 20,000 square feet of retail space, a fitness center, and 299-car parking garage. This project revitalized four buildings that had been vacant for 30 years and substantially contributed to increasing the city of Cleveland's efforts to increase its downtown residency base (Dunlap 2002).

While REITs provide an easy way to invest in real estate, it was not possible to find examples of foundation investment in smarter growth real estate investments with REITs for this guide. As pointed out by Andrew Blocher, vice president of capital markets and investor relations for Federal Realty, a public REIT, while mixed use may work well for some private REITs, for a public company it is difficult. Shopping center investors don't want their REITs in property types that aren't their core competency. Also, public REITs must report quarterly earnings to shareholders, and the lower short-term returns on complex, new, mixed-use communities make it hard to justify the risks to these investors. Yet as the performance of smart growth projects is better documented, this may change. Certainly, there is a growing list of REITs that are known for projects that have smart growth features, such as Colonial Realty Trust (mixed use with housing), and Madison Park REIT (adaptive reuse of historical buildings).

Section 1:
Grants that Improve the Conditions for Smart Growth



I. A. A Grant to Build Awareness

“Foundations can help educate the public and neighborhoods about what a well planned community looks like.”

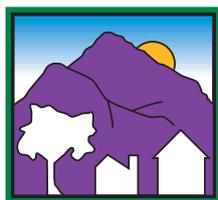
— Albuquerque City Council member Eric Griego

Greater public awareness makes it easier to develop a vision for more livable communities, improve codes, spur development and investment, and reduce opposition from residents concerned about higher density.

The William and Flora Hewlett Foundation and Envision Utah

“[The Envision Utah] process made it clear that zoning for one-acre minimum lot size had a dreadful impact on quality of life.”

— Michael Fischer, previously of the Hewlett Foundation



ENVISION UTAH
A Partnership for Quality Growth

About the Foundation

The William and Flora Hewlett Foundation is a private foundation formed by members of the Hewlett family to promote the well-being of humanity. The Foundation, which has over \$5 billion in assets, concentrates its resources on activities in education, environment, performing arts, population, conflict resolution, and U.S.-Latin American relations. In addition, the Foundation has initiatives supporting neighborhood improvement, philanthropy, and global affairs. Although it once did, the environment program no longer supports urban growth management initiatives.

What the Story Illustrates/ Smart Growth Features

This example highlights a grant to build a regional vision for smart growth among ten counties and 89 cities and towns in the greater Salt Lake City area, leading to the implementation of a Quality Growth Strategy. Its smart growth features include preservation of critical lands, water conservation and cleaner air, improved region-wide transportation systems, increased density housing, “walkable neighborhoods,” and housing options for all residents.

The Story

A decade ago, the Hewlett Foundation supported the work of the Coalition for Utah’s Future to help resolve a conflict over public and private rangeland management. Foundation staff were impressed by the effectiveness of the organization and its credibility among the many players in Utah, spanning religious leaders, business leaders, ranchers, local officials, and nonprofit leaders.

When, in 1997, the Hewlett Foundation heard that the Coalition for Utah’s Future was sponsoring a new initiative called Envision Utah, Foundation staff were pleased to see that, again, the Coalition had brought together business leaders, the governor, media leaders, and others local opinion leaders who were talking about growth management in the Salt Lake City area in knowledgeable terms. The Foundation felt that Envision Utah could succeed in building public support for smart growth in the region and its approach could be applicable to other metropolitan areas in the West. The Hewlett Foundation decided to make a trial grant of about \$200,000.

At the end of a year, Envision Utah had achieved real progress. It was credited with the passage of a ballot measure, which allowed for an increment of sales tax to fund a new light rail system. It also had facilitated the design of alternative growth scenarios for the region, attracting visible support from the governor and broad press and TV coverage.

Residents were given a website or mail-back questionnaire to react to the scenarios, and they sent in 18,000 responses indicating their preference among four different scenarios for transit investment and density increases in the region. With broad support, a growth strategy emerged to improve air quality, relieve traffic congestion, conserve water and open space, reduce projected public

expenditures/taxes, and increase housing choices.

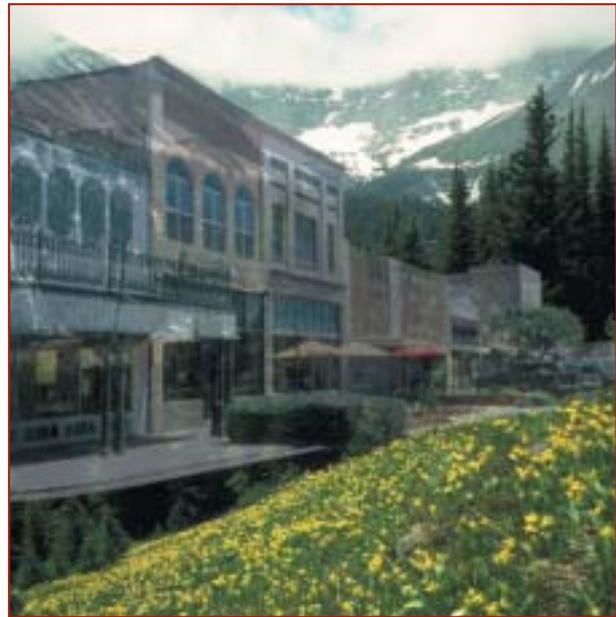
Just at this time, the Hewlett Foundation's assets more than tripled and program officers were charged to think about multi-million dollar grants. It was the right time for a major investment in Envision Utah. Once the Coalition had produced a strong strategic plan, with a well-articulated theory of change and measurable indicators of progress toward defined outcomes, the Hewlett Foundation made a three-year, \$3 million grant, announced in a press conference in Salt Lake City on November 20, 2001. The Hewlett Foundation was convinced that Envision Utah's public engagement process had a broad enough base of support to be able to expect concrete changes in zoning and development patterns within a few years. The Foundation staff also saw the opportunity to produce new ideas for such regions as the Bay Area, Seattle area, Boise, Idaho, area, and Los Angeles area. The Coalition hoped that by the end of three years, there could be a handful of cities with increased zoning along the new light rail corridor, some new transit towns with developers marketing higher-density housing, and another handful of cities that had been able to successfully eliminate the common one-acre minimum lot size.

Envision Utah undertook a painstaking process to build support for quality growth. The Envision Utah team conducted research on the core values of Utah residents; held workshops with key business, civic, public, elected, and religious stakeholders to address where and how to grow; and, as mentioned above, built public awareness and support by asking Utah residents to express their preferences among various scenarios for their communities' future (Envision Utah 2003).

Envision Utah helped local leaders and residents choose specific goals for the region. These were to enhance air quality, increase mobility and transportation choices; preserve critical lands, including agricultural, sensitive and strategic open lands; conserve and maintain availability of water resources; provide housing opportunities for a range of family and income types; and maximize efficiency in public and infrastructure investments. Envision Utah produced 32 individual strategies to implement these goals in what was called the Quality Growth Strategy.

The strategies recognized the critical role of citizen involvement, cooperation in local and regional land-use and transportation decisions, state incentives to

local governments, and local government incentives to developers. They focused not only on achieving changes in public policy, but also on developing tools and training for local governments. They included technical assistance and financial support to select communities to plan for transit-oriented and mixed-use development. They also included backing for three demonstration projects around the state to illustrate more compact development and Quality Growth Awards to recognize new and innovative development. Envision Utah recognized the importance of continued marketing and public education, keeping Envision Utah in the public eye to continue building grassroots support. The Coalition also hired a small team of urban planners to provide, gratis, direct assistance to those cities without planning staffs of their own.



Envision Utah promotes a publicly supported Quality Growth Strategy reflecting a vision to protect Utah's environment, economic strength, and quality of life for generations to come.

The Hewlett Foundation's grant to Envision Utah has accounted for about one-third of the total budget. Approximately 81 percent of funding supporting Envision Utah comes from private donations, 17 percent from federal resources, and an additional 2 percent from government, including support from 24 local governments. In addition, since the Envision Utah project is a public-private joint endeavor, the state of Utah invested in computer modeling for air quality, traffic improvements, and water facilities costs.

Results from the Foundation Perspective

Staff of the Hewlett Foundation who supported the grant to Envision Utah believe it has helped to create stable leadership that can lead long-term change in the region. While Envision Utah is a project of the Coalition for Utah's Future, a 501(c)(3) nonprofit organization, it is a solid partnership of the governor's office, the mayor of Salt Lake City, a handful of mayors of smaller cities in the region, business and religious leaders, and nonprofit organizations. This is a coalition with credibility, influence, and staying power. Towns, developers, and investors know they can come to Envision Utah for both connections to project partners and nuts and bolts guidance.

The objectives of the strategic plan are being achieved. It will take another 20 years before it will be possible to say that the Foundation's \$3 million investment was a complete success. Nevertheless, already there are development projects underway and soon there will be a critical mass of civic leaders supporting changes in zoning and new transit-oriented development projects. Daybreak, the first major new urban project stemming from Envision Utah, is on 4,300 acres of remediated mining land within a new growth area in South Jordan, a suburb of Salt Lake City. This mixed-use development will help to meet the demand for new housing anticipated in the region, allowing residents to live, work, and shop in the same community (New Urban News December 2002).

Finally, Envision Utah leaders have become credible spokespeople who can describe their progress in ways that allow leaders from other regions to learn from them, and Envision Utah leaders have traveled to many regions to speak at public forums, to meet with editorial boards, and to assist smart growth organizations develop their own approaches. The Envision Utah model is being adapted in nine different regions (Brooks int. 2003).

The Urban Land Institute (ULI) gave Envision Utah its Award for Excellence as a unique, bottom-up process addressing regional growth. According to ULI, the process is replicable, sustainable in its approach and products, and produces tangible results. Similarly, the American Planning Association (APA) and the Alliance for Regional Stewardship awarded top prizes to Envision Utah.

Lessons Learned

Effective metro-scale efforts that seek to change long-standing urban development principles need large long-term investments. These changes are not possible through a few \$50,000 grants. Only because of the broad-based partnerships and broad cross section of local civic leadership did Envision Utah move forward. Because growth management requires state involvement, it also was essential to have the support of the governor. Building grassroots support is essential for successful implementation.

Contact People

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Other Examples

The Robert Wood Johnson Foundation has committed \$37 million in grant programs in the past two years to help build the evidence base about the relationship of community design and physical activity, create community models, build leadership, and build awareness. The Gaylord and Dorothy Donnelley Foundation has made it a priority to support informed civic debate about sprawl by supporting such projects as the Campaign for Sensible Growth. The McKnight Foundation in Minneapolis has coordinated the Embrace Open Space Campaign, a joint effort among 11 organizations, to mobilize Twin City residents to become more vocal in public decision-making about land use and land protection in the region. The W.K. Kellogg Foundation's Building Consensus, Finding Common Ground project began in 2001 to make collaborative grants promoting local, regional, and multi-sector consensus building around issues of growth and development.

I. B. Grants to Shape State Policy to Spur Smarter Growth Real Estate Development

“Smart growth requires supportive laws.”

— Peter St. Clair, Bank of America

Supportive public policies at the state level can allow the demand for smarter growth real estate development to be met.

The Surdna Foundation’s Four-State Smart Growth Initiative

About the Foundation

The Surdna Foundation, a private foundation that makes grants throughout the United States, averages \$3 million per year in grants for smart growth, transportation, and livability. The Foundation had assets of \$640 million at the end of 2001 (Mofson 2002).



What the Story Illustrates/ Smart Growth Features

This example highlights grants to foster smart growth policies in a variety of states, create an opportunity for collective learning, and discover replicable policy strategies (Mofson 2002).

The Story

The Surdna Foundation was a leading funder of federal transportation policy and regional transportation coalitions throughout the 1990s. The Foundation saw that transportation system reform

must go hand in hand with land-use reform. Unlike transportation policy, which is largely national, land-use policy is more often set at the local and state level. The board asked staff to figure out how the Surdna Foundation could focus its local and state level engagement around smart growth.

In 1999, the Surdna Foundation decided to commit \$1 million per year for five years to a four-state smart growth initiative. The Foundation not only wanted to support and learn from the efforts in these four states, but also discover a replicable strategy for policy work. Foundation staff hired the research division of the American Planning Association (APA) to assess 17 potential target states, regions, and cities. The APA provided Surdna with community and organization profiles on all 17 areas, and in-depth research and analysis on what it considered to be the five most promising areas (Mofson 2002). The Surdna Foundation used this research, in addition to input from Foundation staff, board, and colleagues, to quickly select four quite different focus regions: New Jersey, Maryland, New Mexico, and the Salt Lake City region in Utah.

New Jersey had a mature state smart growth policy, although many people believed it needed more powerful incentives to have a chance to impact sprawl. With 566 municipalities all making independent land-use decisions, a clear state framework, hooked to local planning and decision-making was critically needed. There was a good collection of advocacy organizations in New Jersey, which already had core funding, although these organizations had not yet come together in a unified strategy. This was particularly important as the campaign to elect a new governor and state legislators was getting underway. The Surdna Foundation began to support New Jersey Future to hone strategies, build coalitions in support of policy reform, articulate what future smart growth policy could be, and raise smart growth as an issue for debate among candidates and voters. Smart growth became a campaign issue. The future governor sought New Jersey Future out for its expertise. The new administration began to explore ways to strengthen state policy. The governor set up a cabinet level group to meet across agencies to grapple with smart growth issues. In New Jersey, the Foundation also saw the need for a stronger grassroots component. Therefore, it funded Isles, a

community development corporation (CDC), which had worked for years on housing and open space issues, to undertake a statewide organizing effort for environmental justice and equity. This effort also began to gain some traction with the administration in the statehouse.

In contrast, New Mexico did not have a state policy related to smart growth, but the Surdna Foundation staff became convinced that if there was a broad-based coalition in place, new leadership in the governor's office might take on this issue. Local organizations had already been successful in building public awareness of water and transportation issues. The Surdna Foundation gave a grant to 1000 Friends of New Mexico for the development of a statewide smart growth coalition called the New Mexico Coalition for a Livable Future, a policy agenda for the Coalition, and other policy work. The Coalition grew dramatically during this time. The new governor introduced positive policy and programs. There also were a number of legislative wins on transportation and water issues. The Coalition also helped the city of Albuquerque adopt a smart growth plan.

Because collective learning was a central goal, the Surdna Foundation convened Smart Growth Initiative grantees twice a year to share lessons. The Surdna Foundation also responded to various needs that were identified through the regular meetings by providing workshops on particular tools. As a result, there was cross-fertilization across the states. A grantee from New Jersey provided political mentoring to one from New Mexico. A consultant who worked on Envision Utah in Salt Lake City was retained to try to do something similar in Baltimore.

Results from the Foundation Perspective

By bringing new resources to the table and committing to a three-to-five year engagement, the Surdna Foundation believes it helped to accelerate capacity building, public process, policy implementation, and concrete results. Joint learning and sharing of strategies and expertise took place between the four sites and useful lessons for the field were culled directly from the four places and from comparisons among them (see "Lessons Learned").

The Surdna Foundation had hoped the grantees could develop a simple set of generic indicators that would provide comparability and a common vocabulary for

smart growth policy development. It learned how difficult it is to compare work and progress over different sites and organizations. Still, the grantees came to better understand the importance of measurement and are working to improve it.

Lessons Learned

The Surdna Foundation identified a long list of useful lessons from the Four State Smart Growth Initiative, only a few of which are mentioned here. First, smart growth work is complex and long-term. It must be grounded in political and economic realities. To make progress, advocates need sophisticated tools, training and technical assistance. Strategic planning skills are critical to set realistic priorities and to focus energy, while retaining an ability to be nimble enough to take advantage of new and unexpected opportunities (Mark 2001).

Second, policy change requires a broad base of support, as there was in New Mexico and Utah. There must be an educated public and buy-in from multiple groups. Advocates must be able to understand public values and how to report back to the public in a way that reflects their values. Polling helps a little, but what really works is participating in visioning work and focus groups and listening carefully to the language that is used, values that are expressed, and hopes and fears of community residents (Mark 2001). Grantees need to engage and mobilize large segments of the population, which is very difficult without experienced media professionals to come up with language that is sharper, more focused, and more easily understood by reporters, political leaders, and the public.

Third, demonstration projects remain the most powerful tool in the smart growth toolbox. Much of the public and many political leaders are not able to grasp what the difference is between a good development and a bad one until they see examples of good ones. When they see a creative infill project or a well-designed transit stop, their support for these things changes rapidly (Mark 2001).

Fourth, race and class are the "silent" issues in smart growth work and the issues with the greatest potential for blocking progress in both urban and rural states. To bring all communities and classes together will take a great deal of support, training, sensitivity, and most of all, leadership of people of color.

Fifth, grantees don't have easy access to best practices in other regions of the country, except where leaders participate in networks like the Growth Management Leadership Alliance (GMLA). It is worthwhile to support story sharing and technical assistance among grantees.

Contact People

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Other Examples

The James Irvine, William and Flora Hewlett, and David and Lucile Packard Foundations undertook a tripartite effort to support California policy development concerning smart growth. The McCune Charitable Foundation supported efforts to adopt an Albuquerque, N.M., planned growth strategy. The Turner Foundation supported regional, state, and national efforts to form new transportation and land-use policies. The Nathan Cummings Foundation, Surdna Foundation, Oleson Foundation, The Joyce Foundation, and the Great Lakes Aquatic Habitat Fund all support Smart Roads: Grand Traverse Region, a project of the Michigan Land Use Institute, which supports policies that preserve open space and prevent suburban sprawl from taking over farmland, forests, and recreational areas.

I. C. Grants to Change Local Ordinances to Spur Smarter Growth Real Estate Development

"We need rezoning for mixed use. We have to have to make it 'by right.' We need pedestrian-scale street standards. We need transit frequency in high-density corridors."

— Will Fleissig, Developer

Supportive ordinances at the local level are needed to convince developers to invest in smarter growth real estate development.

The East Bay Community Foundation's Livable Communities Initiative⁸

About the Foundation

The East Bay Community Foundation (EBCF) is a \$160 million community foundation located in Oakland, Calif., which serves Alameda and Contra Costa counties, a land area about the size of Rhode Island. The Foundation's **Livable Communities Initiative** is dedicated to the creation of vibrant, inclusive, environmentally sound places which bring a diversity of people together through good urban design, residential affordability, preservation of agriculture and open space, and the efficient use of public spaces and public transportation.

What the Story Illustrates/ Smart Growth Features

This highlights how an initiative housed at a community foundation can promote real-world implementation of smart growth principles by city, county, and regional agencies by providing information and technical assistance and fostering

⁸ For a more extensive and detailed version of the East Bay Community Foundation's Livable Communities Initiative, please visit the real estate section in the resource library at www.fundersnetwork.org.

civic engagement, dialogue, and action around such key policy issues as inclusionary housing and mixed-use zoning that supports transit-oriented development and mixed-income housing.

The Story

In 1998, the East Bay Community Foundation's board saw that real estate development fueled by the high technology boom was spreading rapidly into the fringes of Alameda and Contra Costa counties in the San Francisco Bay Area. This sprawling and often poorly planned growth was contributing to skyrocketing home prices, increased traffic congestion, environmental pollution, continued urban disinvestment, and the loss of critical open space and agricultural land. People were having to "drive until they qualified" for an affordable home—often two hours away from their job—which resulted in more latch-key children, diminished family time as well as more indirect impacts such as stress, poor health and nutrition.

Under the leadership of one visionary board member—John Chapman—the Foundation started the Livable Communities Initiative (LCI) with the mission of fostering more sustainable development patterns that are socially equitable, economically vital, environmentally-sound and which effectively engage local citizens in the land-use decision-making process. Over the last five years, LCI staff (Allison Brooks and formerly Edward Church) and John Chapman have honed-in on several roles unique to community foundations that have produced real, tangible results in the promotion and implementation of smarter growth principles and practices in the East Bay region.

As an even-handed *convener*, LCI staff have made sure that all stakeholders are at the table. As *grantmaker* they have worked to build the capacity of local nonprofit advocacy groups to engage in the complex issues of smart growth and land-use planning. As *broker of technical assistance* LCI has brought expert thinking and practice to the discussion and serves as an important intermediary that translates the vision of planners and architects into an on-the-ground reality that resonates with elected officials, city staffs, and citizens. Finally, as *advocate* they have used the good, long-standing reputation of the Foundation to promote key smart growth policies and projects that together improve

the quality of life of residents of the East Bay.

Recognizing that what happens on the urban fringe has a direct correlation with what's happening in the suburbs and the inner city and visa versa, LCI has taken a holistic approach to their work in that they have chosen to work systemically in the rural, suburban and inner-city areas of the East Bay to produce comprehensive policies and practices that will improve the lives of all the people living and working in the East Bay region and beyond. While they work on specific local projects, LCI staff are also engaged with regional policy and planning efforts that will directly impact land-use decisions in the area.

Below are three examples of LCI project areas which exemplify this holistic approach. The first is an inner-city infill project in Oakland. The second is an innovative transit-oriented development project LCI is proposing for a suburban business park in Pleasanton. The third is an example of zoning strategies LCI has promoted in a rural community called Brentwood.

Urban: Uptown Oakland

The proposed Uptown Development in Oakland was the project that initially got the East Bay Community Foundation engaged in land-use issues. In 1998, LCI started as a partnership between EBCF and the California Center for Land Recycling (CCLR) with a focus on identifying a viable brownfield site that would be a good location for infill development. The search honed-in on the Uptown site.

After nearly seven years, there is now a proposed plan for Uptown that is a mixed-use, high-density development to be built on underutilized and contaminated land, and will comprise some 2,000 units of housing, of which 770 will be built in the first phase. The project site is located close to transit (rail and bus) and within walking distance of Oakland's downtown jobs and retail center. In addition to participating in the formal public hearing and review process, LCI staff have been engaged in the Uptown project on many levels—most often utilizing the role of convener to help key stakeholders (many who would not have met without LCI's assistance) come to agreement over important and often contentious issues.

The low-income housing debate was a primary focus of LCI staff, particularly the percentage of affordable

units and level of affordability provided in the project which has been a matter of considerable controversy. After considerable negotiation and numerous meetings, the current agreement states that 27 percent of the project's 770 units in the first phase of development will be affordable at 50 percent of average median income (AMI)⁹, and some units will have deeper levels of affordability down to 30 percent of AMI. The city will dedicate land (a parcel comprising 37,000 square feet) to a nonprofit homebuilder to construct some 74 units of 100 percent affordable multi-family housing. The city also will provide the affordable parcel with about \$2 million of gap financing from redevelopment agency funds. Some of the units will be designed for larger families in accordance with the Coalition's wishes. Child care, a children's play area, and space for social service programs will also be included in the plan. The developer will build the remaining 700 units of which 20 percent are guaranteed as affordable at 50 percent of AMI. The Section 8¹⁰ guarantees were dropped from the discussion by mutual agreement.

In addition to the affordable housing issue, brownfield remediation is a big challenge in the Uptown project. In 2002 LCI contracted with CCLR to investigate the possibility of grants for toxic clean-up of the Uptown site. The \$20,000 LCI contract with CCLR resulted in two U.S. Environmental Protection Agency (EPA) grants being awarded to the city of Oakland totaling \$400,000. The city was delighted with LCI's role in securing these grants. Yet there are still some potential unresolved groundwater contamination issues. The LCI has executed another contract with CCLR to address those problems and to facilitate work with the regulatory agencies and the completion of a grant proposal to the U.S. Department of Housing and Urban Development (HUD) of up to \$1.5 million of additional funding for clean-up of contaminated land.

Green building advocates had experienced difficulty in raising their issues with the developer. After a series of meetings hosted by LCI, it hosted a larger meeting with the developer, the city of Oakland, the advocates, and the project architects to present the document "6 Steps towards a Greener Uptown," along with supporting reference materials to help in the implementation of those priorities. At that meeting, the developer not only agreed to all six recommendations included in the groups proposal,

but also announced that they had chosen to abandon wood framing for Type II steel framing—an innovative decision not usually done in this type of residential project. The developer also stated that they had reduced the parking ratio to 0.85 spaces per unit and they are going to work with the city staff in creating an energy efficiency computer model to research the most energy efficient and cost effective solutions. The Type II steel framing will be the first large project of this type ever built in Northern California. The developer has since taken on sustainable building practices as a core value of their corporation at the national level.

Suburban: Hacienda Business Park

In May 2003, LCI and James Paxson, general manager of the Hacienda Business Park Association—a 501(c)(3) organization that manages the operation and long-term planning of the business park—were given approval by the Pleasanton City Council to move forward with innovative efforts to more fully integrate mixed-use development in Hacienda Business Park and to create a vibrant transit-oriented development (TOD) in and around the Dublin/Pleasanton BART¹¹ Station located at the business park.

This outcome was a result of an initial Concept Study and Workshop in early May 2003 that was produced by a consultant team funded by LCI that included the prominent architect Dan Solomon—founding member of the Congress for the New Urbanism; Dena Belzer—principal of Strategic Economics; Jeffrey Tumlin of Nelson/Nygaard; and Harrison Fraker—dean of the University of California, Berkeley School of Environmental Design. The consultant team offered a vision to the Pleasanton community that took hold and sparked interest among the range of community stakeholders present at the workshop. The consultant team provided recommendations for how to essentially "retrofit" the existing park—the largest business park in Northern California—to create an attractively designed pedestrian-oriented environment that

⁹ The U.S. Census Bureau defines median income as the amount which divides income distribution into two equal groups, half having incomes above the median, half having incomes below the median.

¹⁰ Section 8 is the federal government's housing choice voucher program for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market.

¹¹ San Francisco Bay Area Rapid Transit (BART).

integrated a workable mix of retail, commercial, and housing which capitalizes on and enhances the rich transit system already located near and in the business park.

The enthusiasm for exploring these concepts in Hacienda partly grew out of a sense among city staff, planning commissioners, and the city council that Hacienda is one of the few fairly uncontroversial locations left in the city where higher-density infill and affordable housing can be developed without huge opposition from the community—an important goal if city officials are interested in meeting the needs of their community and the housing requirements set by the state of California as determined by the Association of Bay Area Government's Regional Housing Needs Determination numbers. Furthermore, that fact that Hacienda already had mixed-use attributes and the infrastructure to support higher-density development made it one of the most viable locations for this type of development in Pleasanton. That said, there were three key issues the council requested be adequately considered and analyzed when exploring the potential for infill development in Hacienda: 1) determination of adequate school capacity depending on the student generation rates of new housing development; 2) increased park and open space access; and 3) the elephant in the room—traffic.

Rather than have Allison Brooks of LCI and James Paxson (the Hacienda team) operating on an independent, parallel track with the city, the council invited the Hacienda team to explore these concepts as part of the General Plan Update Process taking place over a one-to-two year period in 2004-2005. Up to the point of this guide, the Hacienda team had participated in about ten different community workshops focused on generating input from individual neighborhoods and gathering opinions on the contentious traffic issue. Through this process, the Hacienda team is hearing concerns, ideas, and opinions from community members, planning commissioners, city council members, and city staff and will incorporate that information into the final proposed plan for rezoning Hacienda that will be presented to the city.

In conjunction with the citywide outreach and information gathering process, the Hacienda team is working on a number of different component projects that will feed into their final report to the

city regarding the overall vision and recommended zoning changes to Hacienda. The goal of Hacienda team is to craft a powerful and persuasive proposal that supports mixed-use infill development that is pedestrian-oriented and which maximizes the proximity of the BART station adjacent to the business park. By fully participating in community workshops and public meetings and meeting with key stakeholders, the Hacienda team will be able to anticipate potential concerns from stakeholders regarding new development in Hacienda and then establish solutions to address any pertinent issues within the final report.

The Livable Communities Initiative has played a key role by being able to fund key studies on critical issues. The first analysis was funded by LCI and focused on traffic concerns. The Hacienda team worked with the transportation consultant firm Fehr & Peers to conduct a literature review of studies documenting the effectiveness of TOD in the reduction of car use. The second LCI-supported study to be incorporated in the final report to Pleasanton, is a report by the organization Redefining Progress (RP) that will examine the benefits of proposed development in Hacienda as compared to other development scenarios the city of Pleasanton could choose to accommodate future growth. The third study will be conducted by the firm Strategic Economics—a leader in the field of transit-oriented development. With the project now at the stage where specifics on the proposed plan are needed, this study will provide the critical information on what kind and how much housing and retail are required to make Hacienda the type of vibrant transit-oriented development the Hacienda team is proposing as its vision.

Taking into account the changing political environment in Pleasanton and the fact that the final decision on the General Plan will most likely be determined by a brand new city council somewhere down the line, the Hacienda team maintains a state of guarded optimism in regards to the proposal being approved during this process. The General Plan Update process will most likely conclude at the end of 2004 or into 2005, at which point it will be decided if this ground-breaking and innovative opportunity to create a TOD with vibrant retail and mixed-income housing in Hacienda Business Park will come to fruition. In any case, LCI and its partner James Paxson have played an instrumental

role in enhancing and invigorating the public dialogue around how to retrofit the existing suburban infrastructure to accommodate and respond to the changing needs and desires of residents and workers in these communities.

Rural: Brentwood Agricultural Enterprise Program (TDR) Inclusionary Zoning

The city of Brentwood is an agricultural town at the very edge of the metropolitan area that has been either number one or two on the list of the fastest growing cities in California for the last five years. The LCI recognized early on that the city was faced with two key growth challenges: 1) the loss of prime agriculture agricultural land due to the more profitable process of converting it to suburban subdivisions; and 2) rising home prices and a subsequent shortage of affordable housing.

In late 1999, trustee John Chapman made an impassioned speech to the Brentwood City Council urging them to develop policies that would prevent the paving over of Brentwood's valuable agricultural land and which instead would focus growth in the city's existing urbanized areas. The mayor called the next day to discuss ideas and the local newspapers wrote a story about the plea. In partnership with the city, LCI started meeting and talking with developers, community leaders, farmers, landowners, and city staff about what could be done to preserve some of the area's key agricultural assets and improve the long-term viability and sustainability of agriculture in the region.

At the urging of LCI, the city of Brentwood decided to hire a consultant who would staff a newly created Agricultural Advisory Committee, which represented all of the stakeholders, including both farmers and developers. John Chapman served on the advisory committee and worked closely with two members of the city staff. Concurrently, LCI also provided financial and technical support for an environmental organization called Greenbelt Alliance to hire an Eastern Contra Costa County Field Representative to engage in these efforts and begin to build citizen interest and involvement in promoting more sustainable land-use patterns in the area.

Over the course of a year of research and rapport building, the Agriculture Advisory Committee produced a plan that reflected the broad community's interests and concerns and best practices from other regions. In September 2001, the

Agricultural Advisory Committee's plan went to the city council and passed. A new ordinance called for the formation of the Brentwood Agricultural Land Trust, with an independent board, to hold easements under a Conservation Easement Program. The city ordinance dictated that for every acre of development of agricultural land, a mitigation fee would be paid to a trust fund to purchase conservation easements in a designated area of high-quality farmland.

The Agricultural Enterprise Program has as its centerpiece a transferable development credits (TDC) program. The city gives each landowner two "units" per acre. The landowner can then trade these units to a developer in a market transaction. The developer who buys the units will receive the right to increase the density of an urban project in areas designated for development within the city of Brentwood. The landowner can then keep the cash and deed the permanent development rights to the Brentwood Agricultural Land Trust. Additional programs focus on agricultural enhancements, such as branding products, improving crop profit margins with organic or niche products, direct marketing strategies to farmers' markets, organic stores, ethnic markets, restaurants, and programs to assist young farmers to become established. The California American Planning Association recently gave the Brentwood Agricultural Enterprise Plan a state award and it is now up for a national award.

Out of this process, LCI fostered credibility and a strong working relationship with community members, city staff, and elected leaders. The LCI then used this credibility to begin to engage the city in a discussion around policy strategies that would alleviate the growing affordable housing shortage for lower-income residents many of whom have lived in the community for generations and worked on the farms. The LCI staff believed that an inclusionary zoning policy would be a viable tool because of the way it integrated people of different socioeconomic backgrounds within a community through the support of mixed-income housing. While helping the Brentwood city staff in drafting the ordinance, LCI staff studied inclusionary zoning's use and impact in a number of cities, developing a sense of how these programs worked. The LCI staff also pulled from previous experiences helping to institute similar ordinances in other cities in the East Bay.

At the same time, LCI worked closely with a faith-based community organization called Contra Costa Interfaith Sponsoring Committee (CCISCO) by supporting the local organizers' efforts to engage the Latino community in the process of writing and shaping the ordinance. If CCISCO could not answer a technical question, the Foundation helped the organization to find someone who could. It was helpful to city staff that there were community groups watching over the ordinance and saying it was important. In July 2003, close to 40 people from the Latino and faith-based community came to the city council hearing on the ordinance to tell their individual stories that effectively illustrated on a personal level why affordable housing was a critical need in the community. The city council unanimously approved a 10 percent inclusionary zoning ordinance. There was no opposition voiced by developers.

Results from the Foundation Perspective

As a third party without a direct stake in these projects, the East Bay Community Foundation and the Livable Communities Initiative have been able to leverage a small amount of money to shift debate and bring new ideas and stakeholders to the table. The changes in Brentwood and other communities probably would not have happened without LCI's participation. The Foundation has learned how to use its fact-finding and convening roles to become a leader in building more livable communities. Even though the project's annual budget has stayed the same, LCI has been able to add additional projects in new locations because it has identified and helped build the capacity of community-based partners to become a partner in this work.

This work is not without risk. Planning can be controversial. Not all developers like what the Foundation is doing, especially large lot, single-family housing developers, and much of local wealth comes from real estate development. Still, the Foundation has prospered during the time it has taken on this work. Assets have grown in the past ten years from \$15 million to \$160 million. No donor has said he or she would not make a gift because of this work. In fact, one new large donor explicitly stated he was attracted by the Foundation's leadership role.

Lessons Learned

Any land-use issue requires a long campaign, sometimes as long as five or ten years. This work has required persistence and stamina. There were many nights when it looked like all would come to nothing. The LCI has been successful in achieving its goals because it has been careful to understand conditions and circumstances unique to each community. The capacity of a community foundation to ask good questions, find facts, bring in outside experts, convene, and envision a better future can be more important than grant money, although small strategic grants can bring important players to the table. The East Bay Community Foundation board has been supportive because it has been kept well informed at every stage. It has helped that there is a champion on the board in John Chapman. For a community foundation to do this work, there must be board support. Most probably, there also must be long-term external funding. The East Bay Community Foundation cannot fund this work from operations. It has depended upon national foundation funding, which there is no guarantee will continue.

Contact People

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I. D. Grants to Support Effective Planning

“Cities cannot do all the plans ... that are needed and plans are powerful in spurring change.”

— Dena Belzer, Strategic Economics

Planning is often the leverage point for smarter growth real estate development. Planning funds that help stakeholders to reach agreement on projects are scarce (Dittmar 2003). Planning grants can ensure that neighborhood groups and local government come together. And they can ensure that crucial issues, such as where new investment makes the most sense in a neighborhood, are not glossed over (Belzer int. 2003).

Baton Rouge Area Foundation and Plan Baton Rouge

“A small amount of public investment has created widespread, sustained private reaction.”

— Alexander Garvin, Consultant for Plan Baton Rouge

About the Foundation

The Baton Rouge Area Foundation (BRAf), which as of 2002 had assets of \$197 million, typically funds in the eight-parish greater Baton Rouge, La., area. The Foundation's community development activities include downtown revitalization and new urbanism, inner-city economic and housing development, and traditional business recruitment. Its smart growth activities have grown primarily out of its interests in community development and environmental protection (Mofson 2002).

What the Story Illustrates/ Smart Growth Features

This example describes a foundation leading a New Urbanist planning process as a means to guide growth already occurring in a downtown and preserve historic neighborhoods, resulting in pedestrian-friendly development, a 24-hour community with more residential development, a

mix of uses and incomes, and a community shaped by public spaces and community institutions with a design that celebrates local history, climate, ecology, and building practice (Mofson 2002).

The Story

East Baton Rouge Parish was under a 40-year court order for school desegregation, which had polarized the community and pushed people to the suburbs. The Baton Rouge Area Foundation's board began to talk about how rebuilding the downtown might draw people back into the city and reunite people. An opportunity soon appeared. In the late 1980s, the state passed legislation requiring all state workers to work downtown, but only in 1996 did a governor decide to follow through by switching from leases throughout the parish to build one million square feet of downtown office space, as well as three parking garages to accommodate 4,300 cars.

In 1997, the Baton Rouge Area Foundation, inspired by a lecture given by Stefanos Polyzoides, one of the founders of the Congress for the New Urbanism, established a New Urbanist Subcommittee with the goal of rethinking the future plans for downtown Baton Rouge (Mofson 2002). Several state officials who were at the lecture started attending the subcommittee meetings and expressed an interest in using the new state buildings to give life to downtown. They were willing to alter their plans to integrate them with a broader downtown strategy. Foundation staff began to reach out to other key leaders in the region, including city officials in charge of transportation, infrastructure and development, and the downtown development district, whose director was very happy to be part of an ambitious plan for downtown. When the mayor was asked to join the effort, he already knew that it had support from leaders throughout the parish.

The Baton Rouge Area Foundation's Planning and Development Committee began to explore how to implement the concepts of New Urbanism in Baton Rouge's downtown. The Foundation already was well known for its involvement in local projects. For example, in 1993, the Foundation brought Local Initiatives Support Corporation (LISC) to Baton Rouge, attracting other foundations, corporations, and individuals to support affordable housing and neighborhood development. When word got out about a partnership with the state of Louisiana and

the city parish of East Baton Rouge, people decided that this project could have an impact. Soon, many people wanted to be part of the action. At the initial community meetings, every seat was taken. The Foundation and its state and local partners were able to form a leadership committee of the top 250 leaders in Baton Rouge. Members were all ages and races and represented every neighborhood. There was a great deal of community excitement.

In 1998, just a year after the Polyzoides lecture, the Baton Rouge Area Foundation sponsored a well-attended community charrette led by Duany Plater-Zyberk¹² and Company. The charrette resulted in Plan Baton Rouge (Mofson, 2002). The Baton Rouge Area Foundation and state and local governments agreed to share equally the cost of a \$450,000 downtown master plan. The Baton Rouge Area Foundation agreed to provide an additional \$150,000 annually to follow-up, maintain, and monitor the Plan's implementation, which they did by creating a new entity called Plan Baton Rouge.

Plan Baton Rouge recommended administrative actions, changes in government procedures and zoning codes, transportation improvements, and development proposals. Also, the plan envisioned that downtown become a special zoning district and that the city seek state enabling legislation that would allow a more flexible rehabilitation code to be adopted. The plan included a separate implementation section, which identified the entities responsible for each of the recommendations, suggested potential funding sources, and established an implementation schedule. The redevelopment plan covered 150 city blocks with goals that included a public market (Main Street Market); hundreds of new units of housing and homes above office space in renovated buildings; renovation of more than a dozen vacant office buildings as offices and several new office buildings; new hotels and additional convention space; a new arts block including performance space, a museum, gallery space, and restaurants; and new parks, including a ten-acre downtown state park, as well as pocket parks and pedestrian corridors.

Plan Baton Rouge reshaped the city's approach to urban design, transportation, and zoning regulations. Still, for three years, most of the new construction was limited to the new state government buildings. As the first state office building began to emerge from the ground, confidence grew that Plan Baton

Rouge would be implemented. There was great fanfare when the building opened, including media coverage, and the state gave credit to Plan Baton Rouge. As each new building was opened, it was front page news. Then, slowly, private investment also began to come back to downtown.



The entrance to Main Street Market in downtown Baton Rouge.

Throughout the first five years, the Foundation continued to play a leadership role, mostly carried out by Elizabeth Thomas, director of Plan Baton Rouge, and her staff, who were hired to facilitate implementation of the plan. They made sure that development plans were integrated. They introduced people who could help move projects forward. They convinced developers to work together when it would produce a better plan, as was the case for the four city blocks on the riverfront that had development projects under different developers. Plan Baton Rouge convinced the developers to do a master plan for the four blocks and helped pay for it. Plan Baton Rouge became the entity people went to when they wanted to make something happen downtown. Developers and city officials trusted the staff. The entire leadership committee that helped

¹² Duany Plater-Zyberk and Company is a full-range planning and architectural services firm that has completed more neighborhood-based new urban designs than any other firm in the United States.

launch Plan Baton Rouge was kept informed of progress and was invited to every event. When Andres Duany came back for a five-year recap in May 2003, almost 300 people attended.

The Foundation also became a supporter of specific development projects that were part of Plan Baton Rouge, making millions of dollars in grants to keystone development projects along with other public and private investors. The Foundation believed that the plan would not move forward without these grants to keystone projects. For example, donors and board members of the Baton Rouge Area Foundation worked with government officials, business owners, philanthropists, and civic leaders to establish a public market (Main Street Market) as a nonprofit entity under the auspices of the Baton Rouge Economic and Agricultural Development Alliance (BREDA) and the Baton Rouge Area Foundation. The Baton Rouge Area Foundation covered the market's operating costs for four years. The Foundation also received, as a donation from the state of Louisiana, six small retail locations in the two state garages approximate to the public market. The Foundation built out and leased the spaces to commercial users. Once the cost of the build out is recovered by the Foundation, Main Street Market will benefit from the income from the commercial leases.

The Baton Rouge Area Foundation came together with the city of Baton Rouge, the state of Louisiana, Louisiana State University (LSU), and the Arts Council of Greater Baton Rouge to create a \$50 million arts and cultural center—the Shaw Center for the Arts—that includes performance space, galleries, studios, restaurants, and retail space. Public funds covered half the cost. The Baton Rouge Area Foundation led the fund-raising effort to raise the other half of the funds. It also donated several million dollars for the building project.

Both LSU Foundation and the Baton Rouge Area Foundation are participating in the Shaw Center for the Arts project through a series of limited liability corporations. The Baton Rouge Area Foundation is responsible for the retail spaces in the complex. The Foundation is funding the build out of these retail spaces and the restaurant with repayment over ten years from lease payments as well as modest interest payments. Ultimately, income from these leases will support programs at the Shaw Center.

Results from the Foundation Perspective

Plan Baton Rouge reduced planning uncertainty and related financial risk. Four years later, the partnership between public agencies, private companies, and nonprofit organizations has transformed downtown Baton Rouge (Belzer and Sigal 2002). Many of the goals of Plan Baton Rouge have been, or are in the process of being, achieved. The downtown Baton Rouge area now has in excess of \$500 million in new construction projects completed, planned, or underway (with \$400 million in state building construction). The initial plan contained 104 projects, which was expanded to 111 projects.



The LaSalle state building in Capitol Park in Baton Rouge.

According to the Plan's January 2002 Progress Report, 80 percent of the projects have been completed (or have been combined with other projects or otherwise reconfigured) (Mofson 2002). In the last year, the effort began to attract sustained private investment in downtown residential development. For example, a developer purchased a parcel on the Mississippi River and plans 150 new luxury condominiums (Plan Baton Rouge 2002). In the early days, the board of the Baton Rouge Area Foundation had hoped that downtown redevelopment would foster racial integration. The board is seeing mixed race crowds at downtown events and in the public market, both in booth owners and customers.

A great deal of work remains to develop policies that support smart growth. The Baton Rouge Area Foundation is working closely with the new mayor of Baton Rouge who has appointed a Smart Growth Task Force for the entire parish. Louisiana is a strong property rights state. Even with the new focus on

downtown revitalization, sustainable economic development, and regionalism, bringing smart growth principles to the suburban and rural areas of the state remains a challenge.

Lessons Learned

In this example, focused foundation leadership served as a catalyst for creating a more livable community and a credible, broad-based public process yielded a plan that had traction. Further, generating community excitement about a feasible vision for downtown reduced the perceived risk of investing downtown. Public and philanthropic sector investment in creating the vision enticed private investment. Strong public sector support and flexibility allowed New Urbanist principles to be applied. And sustained support for the staff of Plan Baton Rouge made it possible to continue to work with various stakeholders in the community, cultivate partnerships, and keep the focus on benefits to the community.



This historic building in Baton Rouge was restored into a mixed-use project with a 1st floor restaurant (Marrazil), two 2nd floor offices, and 2nd and 3rd floor loft residences.

There is no way to have imagined the staff time that was required for this process. Not only have two people staffed Plan Baton Rouge, but also dozens of Foundation staff and board members have donated time and services. This has been a high-risk foray into venture philanthropy. Any one project could

have blown up and negatively impacted the Foundation. Taking advantage of what was already happening in the community lowered the risk, as did supportive state and city leadership. Finally, the plan would not have moved forward without grants to keystone projects (Thomas int. 2003).

Contact People

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Other Examples

The East Bay Community Foundation made a grant to the University of California, Berkeley to assist in the planning and revitalization for the 40-block uptown section of downtown Oakland where the goal is to create a model urban area of mixed-income, mixed-use, transit-friendly development. The Geraldine R. Dodge Foundation and New Jersey Transit split the costs of planning studies for a station renewal program targeting a number of transit stations. The Fannie Mae Foundation is funding a process to create a prototype community asset map and apply it in selected communities. The hope is to use the map to allow community groups in emerging neighborhoods to guide development. The Callaway Foundation made a \$1 million grant to support planning for the master plan for LaGrange College in LaGrange, Ga., 60-miles southwest of Atlanta, including new college facilities and private development around the town’s Lafayette Square to enliven the square.

I. E. Grants to Jumpstart Development

“Everyone makes great plans, but what gives them legitimacy and gets political buy in is support that endures.”

— Shelley Poticha, Center for Transit-Oriented Development

It can be difficult to attract investors for pre-development, land acquisition, housing affordability, local-serving retail, and placemaking features of neighborhood revitalization projects. When Volk and Zimmerman, consultants to New Urbanist development projects across the United States, do a market study for a community, one of the first questions the team asks is what foundations in the area will support these features of the transformation (Volk int. 2003).

Lyndhurst Foundation and Redeveloping Chattanooga

About the Foundation

The Lyndhurst Foundation, which has an endowment of \$155 million, is a private foundation focused on the enrichment and enhancement of the social, natural, and built environment in Chattanooga, Tenn., and the conservation of the surrounding southeastern region.

What the Story Illustrates/ Smart Growth Features

This highlights strategic grants to create new local institutions to implement plans for downtown redevelopment (Chattanooga Venture and River City Company) and affordable downtown and neighborhood housing (Chattanooga Neighborhood Enterprise and MLK Tomorrow), as well as to support keystone projects. The plans include pedestrian-oriented, mixed-use development including parks and affordable housing.

The Story

By 1970, Chattanooga led the nation in the share of residents employed in both manufacturing and air pollution. In spite of greater private foundation resources per capita than any other city in the region and flourishing cultural and private educational institutions, Chattanooga felt like a troubled place. The Lyndhurst Foundation appeared on the local scene in the later 1970s as an untested player. Recognizing the racial and economic splits in the community, the Foundation presented a series of unity concerts in the heart of the city in 1981. The concerts were more successful than the Foundation had hoped. They brought thousands of happy residents into the center of the city and a sense of unity.

In 1983, the city and county government in Chattanooga asked the Lyndhurst Foundation to pay for the Urban Land Institute (ULI) to analyze the potential to redevelop a 600-acre piece of riverfront property, which the city and county governments jointly owned. The Foundation, city, and county agreed to share the cost of a task force to figure out how to use the report to spur development. The Lyndhurst Foundation paid \$300,000 for the study, as well as facilitators and meeting costs for the task force for three years. The Lyndhurst Foundation's president agreed to chair the task force, which quickly broadened its mandate to examine the development potential of the entire 20-mile community riverfront. The task force produced the Tennessee Riverpark Plan, including a billion dollars of development over 20 years. Following dozens of neighborhood reviews, the plan was unveiled before a thousand cheering residents at a community-wide meeting downtown. Both city and county governments unanimously endorsed it.

At about the same time, the Lyndhurst Foundation contracted with Partners for Livable Places to explore how to revitalize the city of Chattanooga. Civic and business leaders, who were taken to Indianapolis, came back believing that Chattanooga needed a new civic organization, more action-oriented than government and more inclusive and open than existing organizations. After a year, what emerged was Chattanooga Venture, which had a commitment from the Lyndhurst Foundation of \$200,000-\$300,000 per year for three years. The Foundation's president served on the board. Leadership also came from other sectors, including business, labor, faith-based, social service, and cultural representatives.

Chattanooga Venture's goal was to give the entire community the chance to discuss what kind of place to be by the year 2000. While focusing on the present brought forth fears and conflicts, an orientation to the future seemed to unify people. Nearly 1,500 residents participated in a four-month visioning process (Vision 2000) that resulted in 40 goals. Everyone knew that they had to deliver on these goals or the process was doomed. Rather than set priorities, Chattanooga Venture began to work on those projects where the opportunity presented itself in the form of resources and leadership that could be assembled. When the state saw the level of local support, the governor also became a significant partner. In the face of roadblocks and conflicts, the leadership group helped stay the course (Murrah 2002).

The Lyndhurst Foundation did not initially see itself as an investor in the 40 goals, but it ultimately invested on a greater scale than could have been predicted given its size. One such investment was a 1986, \$10 million seed grant to River City Company, a nonprofit corporation formed to coordinate the redevelopment of the riverfront and downtown. Another seven local foundations and seven financial institutions donated \$2.5 million, bringing the total to \$12.5 million. River City Company became the driver for the master planning process and public-private collaboration in development projects. The money was used as a revolving fund, mostly for land acquisition (Project for Public Spaces 2002). River City Company had credible and experienced staff and they played a unique role in Chattanooga, aiding planning and partnerships and leveraging land purchases to stimulate development. When private developers were willing to take on projects on their own, River City Company graciously stepped aside. When they were not, River City Company undertook developments. The Lyndhurst Foundation's chairman served on the board of River City Company. The Lyndhurst Foundation also made a \$10 million grant for the new aquarium, which was part of the revitalization plan.

One of the goals of Vision 2000 was to restore inner-city neighborhoods through better housing opportunities. This goal languished until a local developer, the mayor, and the Lyndhurst Foundation formed a partnership to respond to a national search initiated by Jim Rouse, founder of the Enterprise Foundation, looking for a community willing to

work with the Enterprise Foundation to ensure fit and affordable housing for all of its citizens within ten years. The partners shared the \$75,000 cost for Enterprise to study Chattanooga. The Lyndhurst Foundation offered to provide \$500,000 per year for three years in general operating support to a new organization to be called Chattanooga Neighborhood Enterprise (CNE). With technical support from Enterprise for several years, CNE became a provider of second mortgages that reduced down payments for low-income home buyers; a low-interest lender of home improvement loans; a credit counselor for potential low-income home buyers; and a developer of housing for sale and rent to low-income residents.



The Southside Grill, a thriving newer business in Chattanooga, occupies an old meatpacking facility.

Within a few years, CNE was firmly established, with a strong public sector presence on its board and a strong mix of public and private funding to carry out its work. The city agreed to close its housing department and have CNE play this role. Later, the city agreed to contribute several million dollars from block grant funds so that CNE could offer lower-interest rate loans to potential homeowners. The Lyndhurst Foundation continued to provide operating support for CNE. It also provided \$5 million in grants for specific housing development projects downtown and on the south side of the city, first focusing on affordable rental housing, then mixed-income housing. The Foundation recently committed an additional \$3 million over five years with a challenge to CNE to raise \$2 million from other sources.

While the Lyndhurst Foundation saw Chattanooga Neighborhood Enterprise as the community's most significant victory, it wanted to move beyond helping individuals to revitalizing neighborhoods.

Downtown's appeal was in jeopardy because of the declining neighborhoods surrounding it. When the Foundation began to look for opportunities to support neighborhood revitalization, it found one in the ML King neighborhood and committed \$2 million over five years (the Foundation has five-year grant cycles) to show that investments in community revitalization could be an effective use of its resources. The Lyndhurst Foundation, in partnership with Chattanooga Neighborhood Enterprise (CNE), formed MLK Tomorrow, an initiative designed to generate market-rate residential development in the Historic ML King District (The Chattanooga 2003).



These before and after images reflect the revitalization of Chattanooga's downtown "Cowart Place" neighborhood.

In December 2002, the Lyndhurst Foundation commissioned a housing study to determine the demand for market-rate housing in the ML King District. Over 50 attendees participated in focus group sessions expressing a desire for a sense of place, parks and other green spaces, and connection to the university, economic and ethnic diversity, a wide range of architecture and housing types, a wide range of housing prices, a sense of safety and security with reduced speeds on MLK Boulevard, and restaurants and retail options. MLK Tomorrow set a goal of

developing and influencing the renovation and construction of 100 housing units in the MLK neighborhood by May 2005, including single-family houses, lofts and townhouses, small pocket parks, a large central park, a greenway, streetscaping, and a new elementary school.

Lyndhurst Foundation funding has been used to purchase properties and to provide homebuyer incentives. There are already 18 signed contracts for houses in various stages of construction or rehabilitation. Buyers are both white and black. For-profit developers are bidding on several higher-density projects. The Urban League has purchased a former school to renovate it as a mixed-used facility that will house its organization, as well as provide housing units. The Lyndhurst Foundation plans to continue to seek out opportunities to strengthen the core of the city downtown and increase the number of people living in its neighborhoods.

Results from the Foundation Perspective

The Lyndhurst Foundation feels that progress has been more than it could have hoped. If in 1984, leaders had calculated the total cost and assessed the feasibility, the conclusion probably would have been that success was not possible. Over ten years, the aquarium was built, as well as the first two miles of the Riverwalk, a new courts building, a new airport, and a safe place for victims of family violence. Two downtown performing arts centers were restored, as well as the oldest bridge over the Tennessee River and Warehouse Row. There has been a dramatic change in the North End of downtown with hotels, restaurants, and entertainment extending the day traffic into evening. The Riverwalk helped to stimulate private investment in Chattanooga. A new neighborhood was built on the river across from downtown. A larger older neighborhood behind it received an influx of new residents and a revived commercial district. New restaurants, a park, streetscaping, and landscaping filled-in and encircled downtown. In half the time hoped, almost all of the goals were achieved. In addition, CNE has helped 4,000 families to improve their housing situation with a default rate lower than that of most banks. Foundation staff frequently host visitors to see the results of Chattanooga's process.

Lessons Learned

A comprehensive vision, generated and embraced by a public process, has the capacity to unify and energize a community. It takes a long time, and a community can benefit from having an institution like a foundation with a longer horizon than election cycles. It has helped that senior leadership of the Lyndhurst Foundation has been involved in the community since the 1980s. Becoming a more public figure in the city's life brought challenges and controversies that the foundation had not faced in the simpler practice of reviewing proposals and making grants.

Awareness among community leaders about the economic and social threats the community faced brought them to see that a longer view was needed to turn conditions around. Initially, it was more important to engage people's imaginations than their analytical faculties. Projects seen in a broader context of overall community revitalization had more appeal to donors, more credibility with leaders, and more approval from a tax-wary public. A community needs a downtown redevelopment organization with experienced, credible leadership to broker the participation of for-profit developers. It needs to keep its focus on real estate development, as economic development is too nebulous.

Contact People

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Other Examples

The John S. and James L. Knight Foundation is providing millions of dollars in support of a holistic redevelopment strategy for the Overtown section of Miami, including funding for a land trust that will purchase land for redevelopment, new housing, and a community center. The Baton Rouge Area Foundation has provided capital grants to many key redevelopment projects, as has the Howard Heinz Endowments.

Section 2:
Program-Related Investments (PRIs)



II. A. Program-Related Loans to Finance Commercial Real Estate Development as Part of Mixed-Use Development

Vibrant local retail businesses are increasingly recognized as essential to revitalized communities. These businesses allow people to shop close to home and contribute to the sense of community. Yet it is hard to attract investors for small scale retail development, especially in lower-income communities. While many CDCs and foundations have experience with financing housing development, this is less so for commercial real estate development, which can be more complicated and risky.

The F. B. Heron Foundation, Swan's Market, and Jack London Shopping Mall

About the Foundation

The F.B. Heron Foundation had assets of \$255 million at the end of 2003. In the 1990s, the Foundation decided to begin the work of deploying its endowment—in addition to its charitable distributions—in direct support of the mission of “helping people and communities to help themselves.” At year end 2003, the Foundation’s mission-related investment portfolio of \$49.6 million included \$17.3 million in program-related investments.

What the Story Illustrates/ Smart Growth Features

This example features two program-related loans to a nonprofit housing developer to finance the commercial component of mixed-use, transit-oriented, urban infill development and create jobs for low-income people.

The Story

Since 1994, the Heron Foundation had been making general operating grants to the East Bay Asian Local

Development Corporation (EBALDC), a community economic development organization dedicated to the betterment of the East Bay community. The organization’s work was a close fit with the Foundation’s mission and program in wealth creation. Staff at the Foundation knew the organization well. They respected its work and the skill of its managers.

As the Heron Foundation began to make more mission-related investments, it turned to the organizations it knew well, making it known that it was looking for investments related to its five program areas. Several of EBALDC’s commercial real estate development projects fit well the Foundation’s program in enterprise development. As was normal policy, the Foundation engaged outside due diligence providers to review the projects.

In late 2000, the Foundation made a \$300,000, seven-year senior loan at 3 percent with semi-annual payments and a mini-balloon to help EBALDC to revive Swan’s Market (EBALDC had been selected by the Oakland Redevelopment Agency to take on this full square block neighborhood redevelopment project). The Heron Foundation takes a senior position when possible.

It took three years of patient planning and community outreach for EBALDC to reach agreement on the project and structure the complex financing. The \$3.4 million rental housing was underwritten by loans from the city, county, state, and federal governments, as well as private donations. The U.S. Economic Development Agency funded the courtyard, sidewalks, and historic street lamps. A commercial bank construction loan, equity investment by buyers, and a city construction loan financed the \$4.5 million cost of the condominiums sold for ownership. The \$6 million commercial building benefited from tax credits, redevelopment agency funds, a federal grant, and the Heron Foundation loan (Northeast Midwest Institute 2002).

The Heron Foundation found the project attractive because it would provide new retail services and affordable housing close to public transit and create jobs for community members in a neighborhood with a 37.2 percent poverty rate.

The broad coalition that supported Swan’s Market was critical to convincing lenders and investors to invest in this complex mixed-use development project. Supporters included not only city and

county leaders, but also historic preservation organizations, local merchants, current residents, a church, and residents and businesses that planned to move into the development. The partners drove the project forward.

The revived Swan's Market is a \$20 million, 135,000 square foot project, which includes 18 affordable apartments with 15 parking spaces, 20 market-rate co-housing condos with 1:1 parking, and a combination of businesses that surround an outdoor courtyard. Tenants include the Museum of Children's Art, other art galleries, nonprofit organizations, restaurants, and a number of fish, meat, produce, and specialty shops. There is a farmers and crafts market in Swan's courtyard every Friday. And EBALDC has developed a neighborhood job program to make it easier for the businesses at Swan's to hire from the community (Northeast Midwest Institute 2002).

The Foundation also made a \$100,000, 3 percent senior loan for the Jack London Gateway commercial development early in 2001. Seventy-one homes for low-income home ownership had already been built by EBALDC on a former public housing site nearby. Then EBALDC was invited to enter a partnership with the city of Oakland, Westside Economic Development Corporation, and Portfolio Properties, Inc. to acquire and rehabilitate the shopping center across the street, which was anchored by a low-quality supermarket. Portfolio Properties, the project's for-profit partner and leasing manager, attracted a higher quality grocery and a variety of franchise tenants to the shopping center's retail spaces. Westside Economic Development Corporation got the community involved. And EBALDC worked with the city to put together the financing for the deal.

To improve the shopping center for the new supermarket operator and new retail tenants, EBALDC used the Heron Foundation's loan. The Foundation suspended principal and interest payments for three years to provide time for the 53,000 square feet of retail space to be fully leased. In addition to the obvious direct benefits from having a full-service store that sells top quality foods at reasonable prices, the store generates jobs for community members through a "soft skills" training program offered by Westside Economic Development Corporation.

Results from the Foundation Perspective

Swan's Market has won multiple awards for its multi-use urban space that serves neighborhood purposes. While this is an award-winning project, it has run into some challenges. For example, EBALDC has had trouble identifying a replacement tenant for a corner restaurant space after the original investor pulled out following the sustained economic decline. Because of loan covenants, the Heron Foundation had to execute a waiver for deployment of funds. Nevertheless, EBALDC has stayed current on all payments to the Heron Foundation. It is now dividing the space to make it more marketable, using the funds for tenant improvements. Jack London Gateway Shopping Center has done better than expected. Today there is a high quality supermarket, various shops, and a credit union. The presence of Jack London Gateway Shopping Center has supported new businesses and jobs in the area and provided needed access to goods and services in the community.

Lessons Learned

General support grantmaking remains an essential tool to support the Heron Foundation's investment efforts by allowing it to encourage new approaches, build networks, build technical capacity, and support early, higher-risk stage applications of capital market techniques to community-based initiatives. The long-term relationships that the Foundation develops with high-performing grantees through both grants and investments contribute substantially to what it is learning. There is an increasing demand by community and economic development organizations for diverse investments, especially highly subordinated loans that a nonprofit can use as "equity" to leverage additional investment dollars (King 2002).

These two loans confirmed the Foundation's sense that commercial real estate is very complicated and more risky than housing. It requires a special set of skills and experience. Swan's Market and Jack London Gateway were the first PRIs for which the Foundation amortized the loans, and it was a good decision. The Heron Foundation is open to additional commercial real estate projects, although it is still relatively early in the current investments to declare success. In the case of Jack London Gateway project, it was a lot of work to perform due diligence for a \$100,000 loan, raising the question of whether a grant might have been more appropriate. Yet the Foundation might make another loan of this size depending upon the situation. In all

cases, social impact is the first screen for deals. The Foundation currently has a cap on deals of \$500,000, with \$1 million to intermediaries.

The Swan's Market development also was a high cost project for EBALDC, which chose to take on a high-cost, small project because of the high potential benefit to the community. It can be hard to maintain smaller development projects. There must be a great management team in place to make a small mixed-use project work. For example, at Swan's market, the developers combined the retail and housing operating budgets to afford a full time janitor/maintenance/property manager.

Contact People

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Other Examples

The Claude Worthington Benedum Foundation, the Howard Heinz Endowments, and an anonymous foundation made PRI and other portfolio investments to redevelop the LTV Hazelwood site, a 178-acre brownfield site along the Monongahela River in Pittsburgh, as a mixed-use site with office, research and development, supporting retail, and, ideally, some housing space. The four foundations teamed with Regional Industrial Development Corporation (RIDC) as the general partner to purchase, master plan, and entitle the site. The Helen Bader Foundation made a \$100,000 loan to the Menomonee Valley Partners, Inc. (MVP) for MVP's efforts to assemble, clean-up, and market land near 6th Street and Canal Street in the Menomonee River Valley (Milwaukee, Wis.) for uses that may include a mix of office space, retail, and light industrial uses. The William Penn Foundation (Philadelphia) made a \$440,000 grant and a \$5 million program-related investment to The Reinvestment Fund to be used for comprehensive community revitalization in targeted communities, including facilities (day care centers, youth serving organizations, and arts facilities) and up to 20 percent for land banking. The Arnold Fund has invested in a traditional neighborhood development next to the town of Covington, Ga., which is east of Atlanta, including not only retail, but also housing, school, loft, and green space elements.

II. B. Program-Related Equity Investment in a Fund Created to Fill Funding Gaps in Regional Redevelopment Projects

"Investing in our communities' real estate can be an effective way of ... improving the quality of life for all the people of our region."

— The Community Foundation for Muskegon County

It can be challenging to finance unfamiliar kinds of development projects, such as brownfield sites. Funding usually comes from multiple sources and there often are gaps in the funding package. An effective gap funder can help to close difficult, but important deals.

The Howard Heinz Endowments and the Pittsburgh Strategic Investment Fund

About the Foundation

The Howard Heinz Endowments is a private foundation based in Pittsburgh, where it uses its region as a laboratory for the development of solutions to challenges that are national in scope. At the end of 2002, the Heinz Endowments had total assets of \$1.2 billion.

THE HEINZ ENDOWMENTS

What the Story Illustrates/ Smart Growth Features

This highlights program-related investments invested in a loan fund formed to provide gap financing for a variety of redevelopment projects in the urban core, including brownfield redevelopment projects, loft conversions of downtown buildings, live-work

housing, mixed-use commercial-industrial buildings, buildings above public transit, and green buildings.

The Story

In the mid-1990s, government and civic leaders came together to figure out how to address Pittsburgh's serious competitive disadvantage. The city simply did not have the kinds of sites, buildings, and highways that modern manufacturing businesses demand. To rebuild its manufacturing base, it urgently needed to reuse its old industrial sites and develop new sites at critical locations.

The Allegheny County Commissioners, the mayor of Pittsburgh, and the Allegheny Conference on Community Development formed the "Strategic Investment Partnership," issuing their *Investing in the Future* report in December 1995. They adopted two priority investment strategies for the region, a Core Investment Strategy and an Industrial Reuse and Technology Development Strategy, as well as specific economic development and transportation projects to advance those strategies.

To help carry out both *Investing in the Future* strategies, the Allegheny Conference on Community Development created the Pittsburgh Strategic Investment Fund in 1996 with \$40 million it raised from 30 companies, foundations, and individuals. The specific purpose of the Fund was to fill funding gaps in regional development projects, including commercial, industrial, and residential projects.

The president of the Howard Heinz Endowments was on the board of the Allegheny Conference on Community Development and part of the planning process for the Pittsburgh Strategic Investment Fund. The Endowments saw the Pittsburgh Strategic Investment Fund as an appropriate investment in the health of the region under the Foundation's economic opportunity program, which was interested in promoting economic development in the greater Pittsburgh region; investing in activities in blighted areas; and providing employment to the unemployed, the underemployed, and minorities. The Endowments decided to invest \$2 million, disbursed over a period of years as an equity PRI. After ten years, the Fund would be liquidated over another ten years with the proceeds distributed to investors. The Pittsburgh Strategic Investment Fund created a

segregated investment pool for foundations (Class B), which was PRI qualified, although all loans drew pro rata from both pools. The PRIs accounted for 39 percent of funds invested.

The Pittsburgh Strategic Investment Fund had the benefit of two public investment partners. Pittsburgh's mayor created the \$60 million Pittsburgh Development Fund, using \$7.5 million a year from the city's sales tax revenue to pay debt service on a \$60 million bond issue (Holecek 2003). And, in 1998, Governor Tom Ridge awarded \$40 million in state funds for 15 industrial site and building projects in the region. State money also was used to improve the city's neglected roads, bridges and other infrastructure.

While the Pittsburgh Strategic Investment Fund could do everything from provide letters of credit to take equity positions, it decided to focus on mezzanine financing, filling the gap in strategic real estate deals when bankers were wary of loft conversions or brownfield sites. The Fund made loans at rates a few percent below typical mezzanine financing as needed to make the deals work. The projects supported both the Core Investment Strategy designed to preserve and strengthen downtown Pittsburgh through investment in retail shops, housing units, tourism, entertainment venues, office, and industrial space and the Industrial Reuse and the Technology Development Strategy, designed to redevelop strategically located industrial sites to assist business retention or expansion.

Under the Core Investment Strategy, the Strategic Investment Fund approved and closed financing support for the conversion of a 1910-era commercial building in the Cultural District to 25 loft apartments and upgraded retail stores. This \$2.9 million project created downtown housing and strengthened a new Cultural District. The Fund also helped finance the conversion of a 1930-era automobile dealership in East Liberty to 37 work/live units for artists. This \$4.5 million project not only allowed reuse of a long-vacant structure, but also provided an opportunity to test the work/live unit concept. The Fund also helped to finance the conversion of Alcoa's downtown corporate office building into a multi-tenant resource center for regional economic development organizations and area tourism/visitor attractions.

The industrial reuse and technology development projects supported included redevelopment of a former industrial site on Washington's Landing in Pittsburgh into 55,000 square feet of new industrial, warehouse, and office space. This \$4.4 million project retained dozens of jobs in the city and could create dozens more jobs when the building is expanded. This project is contributing to the redevelopment of Washington's Landing on Herr Island as a center for commerce, manufacturing, recreation, and housing. Many of the redevelopment projects have involved brownfield sites with minor contamination. Lenders don't like these projects and require lower loan to value ratios. The Strategic Investment Fund capital makes the deals work. When the Fund invests in new buildings, which is increasingly the case, it promotes green building development and encourages borrowers to get Leadership in Energy Efficiency and Design (LEED®) certification for their buildings.¹³ The Fund also has made loans for new research and development (R&D) and industrial parks that are greenfield sites.

The Strategic Investment Fund has made 25 loans, most of which have supported development projects in Allegheny County. To date, eight of the loans have been repaid and recycled back into the Fund. The Strategic Investment Fund also has helped more than a dozen projects that went on to find financing elsewhere. In 2002, the Strategic Investment Fund Inc. concluded a second round of funding, raising an additional \$30 million from 26 donors from across southwestern Pennsylvania, including another \$2 million from the Heinz Endowments (Pittsburgh Business Times 2002). With the close of the second round of fund raising, the Strategic Investment Fund had raised about \$70 million.

There may be a third Strategic Investment Fund in the future, but it is likely to serve a different market. Initially, the Fund received smaller loan requests for building reuse. Now it is receiving bigger requests for new technology driven R&D space. The Fund also is trying to figure out how to support leasehold improvements because lenders are skeptical about financing build-outs for clean rooms and lab space. The Fund believes it will continue to have a role to play in the urban core, funding office development and loft conversions of old office buildings, often with first floor retail.

Results from the Foundation Perspective

Staff at the Heinz Endowments believe the Pittsburgh Strategic Investment Fund has been a success. The first fund leveraged significant community resources, created and preserved many jobs, and helped to create many attractive projects in the primarily urban core in Allegheny County. The Endowments' investment achieved leverage of 500 percent. The Endowments expect the same results for the second fund, but with more support for high technology start-up sites. The Strategic Investment Fund I will make its last loan in 2005 and begin to pay back investors in 2006 over ten years. Investors have received a return of 4 to 5 percent per year through distribution of earnings after operating costs. The Fund also expects to return 100 percent of their investment.

According to Pittsburgh's mayor, the partnership between the city, Allegheny County, the state, and a wide network of economic development organizations, including the Strategic Investment Fund, has generated \$4 billion in projects under way or completed and challenged people's assumptions about Pittsburgh's future. Pittsburgh's economy now is a combination of research-driven businesses, medical services, manufacturing, and retail establishments that has helped it create jobs every year in the past decade (Holecek 2003).

Lessons Learned

Investors have to understand the strengths and weaknesses of gap financing. With gap financing, the lender puts in the last money to make a deal happen. It allows high leverage, but the gap financing comes late in the process and, more often than not, the projects are limited to what developers bring to the fund for consideration. The Strategic Investment Fund has tried to be proactive, going after projects where it could influence the developer to do more retail downtown or consider a different kind of housing, such as live-work. When the Pittsburgh Strategic Investment Fund was first created, smart growth and sprawl were not a focus for the region. Still, many of the projects that the Fund supported had smart growth features. Smart growth is an emerging focus for the region now. It remains to be seen how the Fund will adapt.

¹³ Leadership in Energy Efficiency and Design (LEED®) is a certification program of the U.S. Green Building Council (www.usgbc.org).

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II. C. Program-Related Real Estate Loans that Ensure Mixed-Income Housing and Affordable Housing Close to Jobs are Preserved

Many smart growth projects begin with the intention for mixed-income housing, but it is lost when the value of a place drives up rents and drives out renters. As important as mixed-income communities are to smart growth, ensuring permanent housing affordability is critical.

John D. and Catherine T. MacArthur Foundation's Affordable Housing Preservation Initiative

About the Foundation

The goals of the John D. and Catherine T. MacArthur Foundation include increasing access to stable and affordable housing, strengthening urban neighborhoods and connecting low-income people and places to affordable capital, credit, and financial services. In the housing arena, the Foundation focuses mainly on rental housing through three strategies: 1) support for successful transformation of public housing in Chicago, including development of new, mixed-income communities; 2) a \$50 million, ten-year initiative to preserve affordable rental housing, known as *Window of Opportunity*, and 3) investments in research exploring the relationship between stable, affordable housing and successful human and community development. The Foundation had assets of approximately \$4 billion at the end of 2003 and makes grants and PRIs totaling approximately \$180 million annually (Schwartz 2004).

Window of Opportunity

Preserving Affordable Rental Housing

An initiative supported by the
John D. and Catherine T. MacArthur Foundation

What the Story Illustrates/ Smart Growth Features

This example features loans to nonprofit organizations to allow them to acquire, revitalize, and preserve multi-family properties comprising 100,000 affordable rental units over the decade ahead. Goals for these loans include preventing displacement of existing residents from gentrifying or high-cost areas, maintaining or expanding affordable housing availability near employment centers, revitalizing neighborhoods and conserving the benefits of prior public subsidy and tax investments.

The Story

Since the 1980s, the MacArthur Foundation has awarded more than \$170 million in PRIs, the majority of which have supported community development financial institutions (CDFIs) around the United States. Supporting the development and rehabilitation of affordable housing and increasing access to homeownership has accounted for more than half of the activity supported through these investments. By the late 1990s, the Foundation recognized that despite the construction of approximately 100,000 new units of affordable rental housing each year, losses from the existing stock were widening the gulf between the demand for low-cost rental units and the overall supply. Thousands of units were leaving the subsidized inventory as Section 8 contracts expired. Building owners were aging and looking to cash out. In strong markets, prices were shooting up even for old buildings. In weak markets, there was no incentive to upgrade units, so the old buildings were allowed to become distressed. Based on available research, the Foundation projected that one million units of affordable housing would be lost over the next decade.

In 2000, the MacArthur Foundation began investing in organizations seeking to maintain and strengthen housing options for low-income renters throughout the United States. The Foundation staff believed that with a \$50 million investment the Foundation could help preserve 100,000 units of housing in a seven-to-ten year period. Senior citizens would be able to age in place. Families in communities on the upswing could stay, maintaining mixed-income communities. Weak buildings could be strengthened, contributing to the revitalization of communities. People who had lived for years in affordable buildings close to their jobs in cities and in inner-ring suburbs would not be

forced into long commutes. And the cost of preserving these units frequently would be about half the cost of building new affordable housing units. The Foundation hopes that 100,000 units will be enough to attract attention to the benefits of preservation for urban, suburban, and rural communities. It wants policymakers at local, state, and federal levels to make preservation a greater priority, on par with developing new units or providing vouchers.

The MacArthur Foundation's strategy is to enable large regional and national nonprofit, mission-driven owners of affordable housing to buy affordable buildings, improve them, and maintain them for the long run. It is seeking out owners of more than 1,000 affordable rental units, such as Mercy Housing and the Community Preservation Development Corporation. It is also supporting specialized intermediaries, such as the Housing Partnership Fund, which was created by a network of 120 regional housing organizations to facilitate the members' preservation transactions.



These before and after images show the Admiral Oaks rental housing development in Annapolis, Md. This 159-unit, unsubsidized property was purchased by the Washington, D.C.-based nonprofit, Community Preservation Development Corporation. The purchaser preserved the affordability of this housing in a fast-appreciating market, while significantly improving its physical condition. The resources for this preservation transaction were raised through low-income housing tax credits, market-rate financing, and other state and local sources.

A \$30 million investment from the MacArthur Foundation is anticipated to give these organizations the means to begin purchasing existing, occupied rental properties in urban, suburban, and rural areas all over the country in a timely manner. The important thing is for these nonprofit organizations to have sufficient risk capital available to move quickly to seek out, evaluate, and take control of relatively large properties, typically buildings with 50 to 100 plus units each, and in some cases portfolios comprising multiple buildings of 1,000 units or more. A 10 percent deposit for a single transaction and related pre-development expenses on a building of the size sought might be \$200,000 to \$500,000. This is high-risk money, enabling organizations to get bridge financing from banks while they upgrade properties and arrange permanent financing. The MacArthur Foundation funds will be taken out as the organizations assemble tax credits, tax-exempt bonds, or other forms of long-term financing. The MacArthur Foundation funds may then be available to the organizations to invest in other projects. The Foundation decided to make PRI loans to each organization of \$1 million to \$3 million for seven-to-ten years at 1 to 3 percent interest.

The MacArthur Foundation also set aside \$10 million for five-to-seven year loans with a 1 percent interest rate for working capital and approximately \$2 million for operating and capacity-building grants. To successfully manage the growth associated with an ambitious plan of preservation acquisitions, the housing organizations need more staff and better computers and information systems. It is expected that these loans could be repaid from corporate operating revenues. The Foundation also intends to monitor these organizations and periodically convenes its loan recipients to facilitate exchange and collaboration.

The final \$8 million was grants for policy and research. Part of the money is going to experts on housing preservation policy, such as the National Housing Trust and National Housing Law Project, which serve as a policy hub for advocates, tenants, policymakers, and community development practitioners working on housing preservation issues, as well as providers of specialized technical assistance. Part of the Foundation's grant money is supporting networks of leading regional and national housing development organizations. Finally, part of the money is going to demonstration research projects.

Many of the housing organizations receiving these loans have housing strategies with explicit smart growth features. For example, San Antonio Alternative Housing is preserving mixed-income property near transportation, schools, and jobs, especially properties in inner-ring suburbs. Homes for America is buying housing in mixed-income neighborhoods within fully developed suburban and smaller urban communities, focusing on properties near amenities and with transportation options. The NHT/Enterprise Preservation Corporation¹⁴ focuses on subsidized and older, unsubsidized properties in inner-ring suburban communities. A garden style apartment complex near Disney World was purchased by NHT/Enterprise to ensure that workers could continue to live in the area despite rising prices in the Orlando market. A real estate investment trust (REIT) made an offer to purchase this property based on a plan to raise rents 40 percent. Because it is a nonprofit organization and therefore could get a property tax exemption and issue tax-exempt bonds, NHT/Enterprise was able to make a competitive offer, purchase the building, make necessary upgrades, add a computer center, and lower some of the rents.

Results from the Foundation Perspective

As of the end of 2003, the Foundation had invested \$30 million in three specialized financial intermediaries, 12 regional housing developers, and policy and research grants to 15 organizations. The MacArthur Foundation's risk capital is helping housing organizations to preserve affordable housing. The first set of investments—in two intermediaries and three regional housing developers—preserved 7,000 units within a year-and-a-half. The Foundation believes that its loan recipients can preserve 10,000 units per year and meet the overall goal of preserving 100,000 units by 2012.

¹⁴ NHT/Enterprise is a joint venture of the National Housing Trust and the Enterprise Foundation (www.nhtinc.org/nhte.asp).

Lessons Learned

By the end of 2002, the MacArthur Foundation had selected its first six preservation investments borrowers on a case-by-base basis. In 2003, it awarded an additional five PRIs and eight grants to regional housing organizations selected through a year-long process that began with an open request for proposals (RFP). Fifty-five groups applied. The Foundation expected the process to yield no more than ten organizations with the scale, ambition, and experience to meet its benchmarks, including the capacity to successfully preserve 2,000 units over a five-year period. Many of the organizations that responded lacked a strong preservation emphasis or track record. Others were not ready for major expansion or did not seem sufficiently creditworthy for a variety of reasons. It is hard for a nonprofit organization to have the scale and financial sustainability needed to be a very large property owner. Nonprofits are hampered by the unwillingness of philanthropy to look at them as businesses rather than charity. They cannot succeed if they are strapped for cash, but many funders are uncomfortable with a nonprofit that has substantial cash on hand. Nonprofits also are pulled in many directions by many stakeholders. And affordable rental housing is a hard business, vulnerable to market swings, changes in available subsidies, and regulatory challenges. This work requires rigorous due diligence and a long view. The MacArthur Foundation brought in an expert on affordable housing to help with the due diligence and to document the organizational challenges.

There are many opportunities to invest in housing preservation at the local, regional, and state levels. A significant amount of existing affordable housing, subsidized and unsubsidized, provides good access to jobs. Losses from this housing stock are mounting and such properties are costly and difficult to replace. Preservation also is a powerful tool for achieving communities that create opportunities across income and at different stages of life.

Contact People

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II. D. An Investment to Stabilize Low-Income Neighborhoods with an Affordable Housing Land Trust

Affordable housing subsidies often fail to ensure permanent affordability. Without permanent affordability, it is hard to sustain income diversity in mixed-income, mixed-use neighborhoods.

The California Community Foundation's Community Foundation Land Trust

About the Foundation

Established in 1915, the California Community Foundation is a public charity that works in partnership with individual and corporate donors to build endowment and make grants to support nonprofit organizations and public institutions across Los Angeles County. With more than \$600 million in assets, the Foundation uses its portion of unrestricted funds not designated for a particular agency or purpose to award grants through a competitive process to health and human services, affordable housing, early childhood education, neighborhood revitalization projects, community arts and culture, and other programs. In the area of affordable housing, the California Community Foundation has launched an initiative around a land trust model to promote home ownership among low-income families in the Los Angeles region.



CALIFORNIA COMMUNITY
FOUNDATION

What the Story Illustrates/ Smart Growth Features

The Community Foundation Land Trust (CFLT) formed by the California Community Foundation is intended to be a long-term investment in a land trust that leverages public resources; creates permanent affordable housing so that low-income, first-time homebuyers can live close to transit, jobs, and shopping; allows for wealth creation; and helps stabilize and revitalize inner-city neighborhoods.

The Story

Building upon more than a decade of grantmaking and lending for affordable housing in Los Angeles, in December 2002 the board of governors of the California Community Foundation voted to create an urban land trust to help confront the enormous problem of affordable homeownership in Los Angeles. The board formed a supporting organization, the Community Foundation Land Trust (CFLT), and funded its initial operations with a grant of \$3.8 million. The mission of CFLT is to acquire land, remove it from the marketplace, and place it in trust for the sole use of providing affordable homes for purchase by low-income families. In pursuit of its mission, the CFLT board also approved a covenant not to raise the price of the land for the balance of the 21st century.

The Community Foundation Land Trust would be a new hybrid model, one that would both preserve affordability and allow for wealth creation. The Foundation chose to develop an initiative through which it would buy the land and provide a ground lease at 3.5 percent per year to homebuyers. Because the homebuyers would not have to finance the land, they could take out a smaller, 15-year mortgage rather than a 30-year mortgage and still afford the payments. As a result, the homeowner would build up substantial equity through debt reduction. While homeowners could sell their houses at any time, they could only keep a share of the appreciation of the dwellings' value, 5 percent for every year they owned the house.

The Community Foundation Land Trust (CFLT)

The CFLT is designed to acquire residential property in low-income communities, remove it from the marketplace, and place it in trust for affordable homeownership without raising the cost of the land for 99 years. The CFLT provides low-income families

an opportunity to own their own home without having to acquire the expensive land upon which it sits. The buyer may own his or her CFLT home with only two restrictions: 1) the buyer/buyer's family must occupy the home; and 2) if the home is sold, it must be sold to a low- or like-income buyer. The first restriction is designed to prevent homes in emerging markets from being sold to outside investors who in turn take single-family residences and turn them into multi-family rentals. The second restriction is intended to keep housing affordable and allow families who have lived in a certain neighborhood to continue to live there. The CFLT model would function as a "social cocoon," eliminating predatory lenders and disinvestment in communities in need of capital and hard assets.

Two key features of CFLT distinguish it from other land trusts in the United States. First, CFLT is owned and operated by a community foundation rather than the community itself. One reason for this is that land trusts are inherently long-term in nature. While most communities—and the people who establish land trusts within them—change over time, a community foundation is, by its very nature, "long term." Secondly, acquiring significant parcels of residential land in Southern California is often beyond the reach of low-income communities. A financial institution with a social mission, such as a community foundation, is a more practical alternative.

Another unique feature of CFLT is its wealth-creation component. The model CFLT employs keeps housing affordable for multiple generations and creates wealth at the same time, through debt reduction as well as capital appreciation. Because CFLT purchases the land, which in Southern California can account for more than 40 percent of the total cost of a home, the homeowner does not need to finance the land component, and therefore has a smaller mortgage to service. A CFLT home can therefore be financed on a 15-year self-amortizing mortgage rather than a 30-year mortgage (which pays down very little principal in the first several years). Instead of the tax deduction write-off of interest payments, CFLT homeowners accumulate principal. Furthermore, after 15 years the homeowner will no longer have a mortgage payment. Stabilized communities and long-term stakeholders with economic security are among the key benefits built into the CFLT model.

Building Partnerships

In addition to piloting a new and complex model of affordable home ownership, there were many challenges to be faced, including the possibility of resistance from the community. Yet because the California Community Foundation had good relationships with local neighborhood organizations and a solid track record of grantmaking in housing and community development, it was confident that it could buy land in neighborhoods without the resistance or skepticism that a bank or developer might encounter. Local community development corporations (CDCs) that had land to develop, a successful track record in community development, and strong local relationships would be likely partners. The CFLT could work closely with the CDCs to identify nuisance properties and other parcels of land that could be redeveloped. The CDCs would select the homebuyers, subject to CFLT approval, and conduct a special CFLT homebuyers' education program.

The Foundation designed CFLT as a demonstration project that would attract banks, other foundations, and the public sector as partners in the initiative. The Foundation is particularly interested in the prospect of donated land.

The city of Los Angeles was an obvious potential partner because the mayor's housing agenda included eliminating vacant, underutilized, and rundown properties to build residential or mixed-use development projects. The Community Foundation Land Trust hopes to get the city to take additional steps to pursue common goals. The CFLT has begun to encourage public officials to re-zone underutilized commercial and industrial districts near transit stops for high-density housing with mixed use, suggesting that the city should try to leverage its balance sheet with new development on existing, city-owned property. If the city owned ten acres of property, for example, five acres could be sold to a for-profit developer with entitlements already in place. The balance of the property would be placed into the Community Foundation Land Trust at a reduced cost.

In addition to seed funding from the California Community Foundation, CFLT has thus far received operating support funds from the Fannie Mae Foundation and the Washington Mutual Foundation. The CFLT is also seeking investment partners. Banks could receive Community

Reinvestment Act (CRA) credit for investing in the land or providing construction or permanent loan financing. The CFLT may also reach out to pension funds and try to attract state funding.

Results from the Foundation Perspective

The CFLT currently has five projects in the pre-development stage in Los Angeles, each of which uses one or more Land Trust tools. Totalling 319 units, the projects represent \$64 million in real estate investments. The Los Angeles Community Redevelopment Agency has agreed to provide subsidies to the homebuyers on one of the projects. The hope is that these 30 homes will help stabilize a very low-income, transient neighborhood by supplying affordable home ownership and long-term stakeholders.

Lessons Learned

The Foundation has faced many challenges in pursuing its affordable homeownership initiative. The model is new to the Los Angeles market, where the cost of land and limited supply of available property have created a highly competitive environment for acquisition. Keeping investors in a deal for the long term also may prove difficult. The model is itself complex: explaining the benefits of this nontraditional route to homeownership to potential buyers will require a cohesive homebuyer education and public relations strategy. Finally, it must be determined how best to integrate CFLT's projects with the California Community Foundation's other lending and grantmaking efforts in low-income neighborhoods. In spite of these challenges, the CFLT model is a promising new approach to increasing home ownership for first-time homebuyers in Los Angeles.

Contact People

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Section 3:
Loan Guarantees and Credit Enhancements



III. A. A Loan Guarantee for Mixed-Income Communities

Sometimes nonprofit and public developers of smarter growth real estate development projects are able to obtain loans only if they can offer a full or partial guarantee by a third party. This is often the case for new kinds of projects and for commercial space that does not have leases with credit tenants. Often investors are willing to reduce or eliminate the guarantee once projects mature.

John D. and
Catherine T.
MacArthur Foundation

About the Foundation

The goals of the private John D. and Catherine T. MacArthur Foundation include increasing access to stable and affordable housing, strengthening urban neighborhoods, and improving the economic prospects of distressed and disadvantaged communities by connecting low-income people and places to affordable capital, credit, and financial services. In the housing arena, the Foundation focuses mainly on rental housing through three strategies: 1) support for successful transformation of public housing in Chicago, including development of new, mixed-income communities; 2) a \$50-million, ten-year initiative to preserve affordable rental housing, known as *Window of Opportunity*, and 3) investments in research exploring the relationship between stable, affordable housing and successful human and community development. The Foundation had assets of approximately \$4 billion at the end of 2003 and makes grants and PRIs totaling approximately \$180 million annually (Schwartz 2004).

What the Story Illustrates/ Smart Growth Features

This example highlights the use of a loan guarantee to finance the development of well-designed, mixed-income housing to replace public housing projects

and to reconnect neighborhoods to the surrounding communities.

The Story

In 1999, the MacArthur Foundation began to provide grant support for the transformation of public housing in Chicago. The Chicago Housing Authority (CHA) has undertaken an ambitious \$1.6 billion capital program to demolish more than 16,000 units of housing and to rehabilitate or build about 15,000 units over the next seven-to-ten years. Some but not all of these units will be built in mixed-income communities in which 30 to 50 percent of the units are planned to be sold or leased at market rates, 20 to 30 percent built for low- to moderate-income homebuyers and renters, and 20 to 30 percent leased to public housing tenants.

To date, the Foundation has awarded approximately \$24 million in grants to assist the transformation process and give it the best chance to succeed. It has funded a variety of organizations, including tenant organizations, community development and neighborhood organizations, academic institutions, social service providers, and government agencies to:

- Build the information and management systems of the CHA; develop materials and processes to be used to relocate and assist residents;
- Help engage a wide range of organizations and institutions in the overall effort of support the transformation;
- Provide technical assistance to tenant leaders and others to plan physical development; and
- Support the research and policy analysis needed for effective implementation.

When the transformation process was up and running, the MacArthur Foundation decided to turn its attention to the half dozen redevelopment projects slated for the front end of this multi-year transformation process. These are very ambitious mixed-income projects in the model of Hope VI. The public housing would be leveled and new communities built. The goal is to reintegrate these communities into the urban fabric. The Foundation decided to help ensure the success of these projects by making a series of grants to groups developing strategies for community building and for services to public and affordable housing tenants who would return to housing in the redeveloped communities.

At this time the city of Chicago and CHA approached the MacArthur Foundation to ask if it could help in another way. The city and CHA had a funding gap. City resources were earmarked for rental housing. And CHA had the funds in place for the low-income housing. The problem was the affordable homes that would be for sale. The nature of the development was highly speculative. There was no existing market-rate housing. Investors were concerned that the sale prices for the housing would not cover the costs. The city wanted to use tax increment financing (TIF), borrowing now to build the housing and paying off the loan with future property tax increment from the owners of the for sale housing. Lenders thought this was too speculative. The city asked the MacArthur Foundation for a \$5 million loan. The city hoped that if it could demonstrate the market in one community, it would be able to find mainstream investors for the other communities.

The MacArthur Foundation was willing to entertain a program-related loan to the city of Chicago, but it had some questions about whether this was the best approach. The \$5 million would help to prove the credit worthiness of one project, but one project example probably would not be enough to change market perceptions. The MacArthur Foundation believed that the city did not need the Foundation's below market-rate funds to make the project work, but it needed its tolerance for risk.

The Foundation decided it would provide a loan guarantee for a \$15 million, 20-year loan for multiple redevelopment projects. Loan guarantees involve the use of a foundation's financial resources to assure the repayment of a loan made by a third party. In effect, the Foundation has increased the amount of credit available to the city of Chicago and the CHA by assuming part of the lender's risk. The credit enhancement provided by the MacArthur Foundation loan guarantee will allow the loan to have the equivalent of an AAA rating. In addition, the city will get the interest rate reserved for the best quality debt.

It was very important to the MacArthur Foundation that the loan guarantee be used to demonstrate the market and entice other investors. The MacArthur Foundation intends that that guarantee will be released as the projects prove themselves so it can be reused for additional projects. The Foundation has

offered a 100 percent guarantee for the first five years, the most speculative years. At the end of five years—by when it is expected that the housing would be built, sold, and valued on the property tax rolls—the loan will be reevaluated. If there is adequate debt coverage based upon the tax increment, the guarantee will drop to 50 percent. Once the loan is paid down 50 percent and there is reasonable debt coverage, the Foundation could remove the guarantee. Fannie Mae has agreed to be one lender. The Community Reinvestment Fund is constructing a mechanism to allow other lenders to participate.



These before and after images show the revitalization of the Henry Horner mixed-income development that sits on a former public housing site in Chicago (© Eric Smith).

The MacArthur Foundation is providing the loan guarantee through the Foundation's program-related investment area. A normal creditor would not provide this credit enhancement. The guarantee is being made to further program goals. But the guarantee will not constitute a PRI unless the pledge is called. Grant distribution credit cannot be taken on a loan guaranty or letter of credit furnished by a foundation unless and until such instrument is called or drawn upon and a payment is made by the foundation (Chernoff 2000).

The MacArthur Foundation loan guarantee is just one piece of a complex financing package. The Chicago City Council authorized not only the \$15 million loan, but also the use of special financing programs for affordable rental units. Half of the Chicago Department of Housing's federal HOME dollars earmarked for multifamily housing in 2003 will be spent on the public housing transformation projects. The Department of Housing will issue low-income housing tax credits for several of the projects. Developers will secure the private financing for the market-rate units on their own. The CHA will rely on HUD HOPE VI funds to pay for the public housing units (Almada 2003).

Results from the Foundation Perspective

The MacArthur Foundation is pleased that its loan guarantee can eliminate a key barrier to the transformation plan for public housing in Chicago. The sooner the new developments are built, the sooner residents will be able to move home. The sooner there is a track record for the market-rate affordable housing, the sooner conventional investors will appear. In a scheme involving billions of dollars, \$15 million is not much, but it targets a strategic point of leverage.

Lessons Learned

This is the first loan guarantee for the John D. and Catherine T. MacArthur Foundation. Loan guarantees are not widespread in the foundation sector, especially at this scale. There have been many parties to the negotiation, both public and private. It has been difficult to balance all of these quite different interests and the complexity of the transaction required a sustained investment of time and specialized legal expertise.

Contact People

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Other Examples

The Jacobs Family Foundation has used guarantees on many fronts, including loan guarantees for minority contractors building in underinvested neighborhoods. The Marin Community Foundation has included a loan guarantee program as part of its Community Investment Loan Fund. The David and Lucile Packard Foundation provided a guarantee of a \$2.6 million bank construction loan to Children's Services International, a nonprofit child care provider, to support a facility in underserved East Salinas, Calif. The Gaylord and Dorothy Donnelley Foundation has provided a loan guarantee to help in the purchase and restoration of key wetlands in Illinois.

Section 4:
Creative Occupancy of Real Estate



Section Cover Photo: This home (circa 1882) in the Brabson Hill neighborhood of Chattanooga, Tenn., was renovated in 1995 and now houses the Lyndhurst Foundation's office (Source: Lyndhurst Foundation).

IV. A. Occupying and Operating a Performing Arts Center to Spur Redevelopment

A restored arts center downtown can have a halo effect for redevelopment, especially if there are additional initiatives to spur redevelopment. Occupying offices in the building emphasizes a foundation's commitment to its success and the success of the downtown.

The Community Foundation for Muskegon County, The Frauenthal Theater, and More

About the Foundation

The Community Foundation for Muskegon County is an \$80 million publicly supported community endowment created in 1961 to improve the quality of life for residents of Muskegon County, Mich. The Foundation supports efforts in the areas of arts, education, environment, community development, health and human services, as well as youth development.

What the Story Illustrates/ Smart Growth Features

This example explains how buying, renovating, and occupying a historic downtown theater and performing arts center could anchor redevelopment, preserve a community asset, and make progress towards a long-term vision of a New Urbanist downtown.

The Story

Until the early 1970s, the Community Foundation for Muskegon County, incorporated in 1961, was a fledgling community foundation. In the early 1970s, the Foundation began to enjoy some growth and

increasing stature in the community. Just at that time, the city of Muskegon was in the throes of urban renewal, knocking down landmark buildings to make room for a new mall. The city decided to knock down the historical Schlossman Theater, located at the heart of the downtown. The major corporate and civic leaders who served on the Foundation's board saw this as too big a loss for the community. They saw the potential for this Romanesque building at the geographic center of downtown to anchor redevelopment. The Foundation had recently received a \$1.5 million gift from A. Harold Frauenthal for the good of the community. Within weeks of the demolition work beginning, the Foundation offered to buy the building. The realty company that held title for the theater said that Foundation had to buy the entire block of buildings along Western Avenue between Third and Fourth Streets, which the Foundation did in 1974.

Buying the theater building block was a major commitment for the still small Foundation. Soon after, the Community Foundation for Muskegon County moved into the second floor of the theater building, continuing to lease out the third and fourth floor office space. Moving into the building allowed it to take advantage of the asset it now owned. It was a good location. While the space was a bit shabby, it was safe and comfortable.

Three years later, on October 30, 1977, following basic repairs and renovation, the Frauenthal Theater was rededicated for not only movies, but also concerts, plays, and dance shows. Almost a decade later, through the generosity of donors and volunteer workers, the furniture store next to the theater was transformed into a 180-seat theater, art gallery, rehearsal halls, and classrooms, achieving the Foundation's vision of a complete performing arts center.

While the performing arts center was a success, the Frauenthal Theater badly needed a facelift. The Foundation paid to bring in a theater restoration expert and develop a strategy, but it did not have the millions it would take to complete the restoration. Foundation board members, leaders in the community, decided to make an appeal to the county board of commissioners. After several years of meetings and exploration, the county board agreed to a ballot initiative for the restoration of two downtown buildings (the second building was the nearby civic center, Walker Arena). The

Foundation and its trustees reached out to the local newspaper, community leaders, and residents to make the case for the restoration. The 70 members of the Friends of the Frauenthal also put in hundreds of hours of volunteer time. In 1995, Muskegon County taxpayers voted to fully restore the Frauenthal Theater using the proceeds of a \$7.5 million bond issue.

The Foundation led the effort to select the general contractor and subcontractors and oversaw the construction process, a massive undertaking which was completed in 1998, when the renovated theater, “the best in Michigan outside of Detroit,” re-opened (Frauenthal Center for the Performing Arts 2004). The Foundation continues to own and operate the theater complex to this day, probably the only community foundation that owns and operates a theater complex. Until two years ago, the Foundation operated the theater itself, hiring a theater director and half a dozen staff. But this approach used too much of Foundation staff time. Now the Foundation contracts with an outside company to operate the performing arts complex.

The Foundation’s board has long hoped that the theater complex would spur a renaissance for a new downtown Muskegon. From time-to-time, the Foundation has brought consultants to Muskegon to develop a vision for the new downtown. The core of that vision has been to bring people back to downtown to live. A few years ago, an opportunity presented itself. Across from the theater, there is a three-block section the city purchased in the 1970s for redevelopment as a covered shopping mall. This mall closed in 2002, a victim of competition from bigger suburban malls. The Community Foundation for Muskegon County formed the Downtown Muskegon Development Corporation, in partnership with the Paul C. Johnson Foundation (a supporting organization of the Foundation) and the Chamber of Commerce, to purchase the bank note on the 27-acre mall. Deconstruction of the former mall is well underway. Pre-development work towards establishment of an urban village redevelopment project with a vision of a walkable, livable, New Urbanist downtown, including loft apartments above retail and condominium housing is now underway. The Foundation has expanded beyond the theater project to something much larger and more uncertain with the hope of creating a vibrant future for the Muskegon region.

Results from the Foundation Perspective

The Foundation has received community recognition and appreciation for providing leadership to acquire the theater and restore it.

The theater complex is a community asset that is used extensively and has anchored the core of downtown. It is one of a very small group of significant historical buildings that survived urban renewal. The revitalization of the Muskegon downtown still is likely to spring up around the theater. It is generally accepted that theater complexes can play an important role in urban revitalization. The theater is the performing arts center for the community, creating a sense of vitality and community energy and helping bring people downtown.

But it has been a challenge to operate the theater. Revenues from the theater do not cover the full costs of operations. The Foundation relies on the remainder of the Frauenthal endowment (only half was used to purchase the building) and additional contributions that have been made to this endowment fund to cover the operating shortfall, which exceeds \$100,000 annually. From time-to-time, the Foundation must use additional unrestricted endowment income to cover the operating shortfall. In the near future, the community may be challenged to come up with a new way to support the complex. Until that happens, the Foundation is committed to support it and even more ambitious projects, such as the redevelopment of the former downtown shopping mall.

Lessons Learned

The Community Foundation for Muskegon County has stretched to be the leader its community needs. Unlike many other regions, Muskegon County has no corporate or family foundations. People look to the Foundation to lead and it does not let them down. This work has absorbed a large share of the Foundation’s efforts and resources. For example, the Foundation president and others worked tirelessly to obtain control of the note for the shopping mall. The Foundation has over \$2 million tied up in the mall project. While the Foundation hopes it will receive a good return on this program-related investment, it will take some time to bear fruit. For now, the Foundation is not earning income or generating grant dollars from these assets. With the Foundation’s

heavy investment in real estate, it is less flexible and somewhat restricted in its other grantmaking activities. Yet the path the Foundation has taken with community support is driven by community need.

Contact People

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Other Examples

The Flinn Foundation, a \$189 million foundation in Phoenix, built its own building in 1999 for \$3.4 million. The midtown arts district, where it located its building, seemed to be passed up during the building boom in Phoenix and the Foundation wanted to serve as an anchor for the area.

IV. B. Occupying Neighborhood Housing to Spur Redevelopment

Occupying housing in a neighborhood can demonstrate confidence that the neighborhood has a future. It also can provide a local base from which to invest in neighborhood development to achieve a vision of a mixed-income, mixed-use community.

The Lyndhurst Foundation—
Restoring a Historic House for its Offices and then Encouraging Further Neighborhood Development

About the Foundation

The Lyndhurst Foundation, which has an endowment of \$155 million, is a private foundation focused on the enrichment and enhancement of the social, natural, and built environment in Chattanooga, Tenn., and the conservation of the surrounding southeastern region.

What the Story Illustrates/ Smart Growth Features

This story describes renovating a house to serve as foundation offices, along with additional redevelopment projects to revive confidence in a neighborhood and rebuild it so that a variety of institutions and families can live together in a compact and walkable grid.

The Story

In 1983, the Lyndhurst Foundation purchased several buildings as part of a collaboration with experienced developers, the city, and a local insurance company in a full square block revitalization in Brabson Hill, an urban core

neighborhood in Chattanooga. The Foundation was excited about the possibility of stimulating the revitalization of downtown housing, but also hoped to earn a financial return. Unfortunately, the deal fell through. The Foundation ended up owning an aged house in poor condition with little or no apparent use. And so it stood for ten years. The property was managed by an outside service and was occasionally leased out.

In 1991, the Lyndhurst Foundation's lease of downtown office space was about to expire. Since space on the seventh floor of a 12-story office building didn't convey what the Foundation was about, a search began for alternative sites. The Brabson Hill property, which the Foundation had purchased almost a decade earlier, carried the day. The Foundation already owned it. It was one of the older houses still standing in the downtown area. It enabled the board to make a different statement about the Foundation's character. It also gave the Foundation a chance to revive its old redevelopment scheme.

In 1995, the Lyndhurst Foundation moved into the renovated house, which demonstrated resource efficient technologies and native landscaping. This was, however, just a beginning. The Foundation has used the house as a springboard for over \$4 million of new construction and rehabilitation in the neighborhood.

Across the street from the house were three large wooden frame houses from the 1890s that were not well maintained and were available for weekly rental. The Lyndhurst Foundation made a \$175,000 low-interest, long-term loan to Chattanooga Neighborhood Enterprise (CNE) to buy the three houses at a price probably slightly above market. The houses could have been renovated for upscale, single-family housing. But the Lyndhurst Foundation wanted to create a mixed-income community, so CNE used tax credit financing to restore the buildings to keep the affordable rental units. The houses, which appear from the outside to be pleasant single-family dwellings, together have 21 units of housing. The quality of the rental units is much improved, but the monthly rental rates are lower than they were before. Once the project was done, these houses were no longer an impediment to further development. Soon another 15 houses were built on the block across from the three houses. The first six 2,500 square foot units, which targeted

upper middle-income empty nesters, sold for \$250,000. Resale units sold at much higher prices, reflecting a strong market.

The Lyndhurst Foundation owned another piece of property on an adjacent block, which it conveyed to the local downtown redevelopment organization, RiverCity Company, to build housing. The Foundation hopes that the County Election Commission will decide to move to another location, which would free up half the entire block for development possibilities. A few other housing projects have not gone forward. Brabson Hill is still a hard market to attract developers.



These before and after images show changes to the rear entrance of the building (circa 1882) that now houses the Lyndhurst Foundation's office in Chattanooga.

The Lyndhurst Foundation's first priority will continue to be urban neighborhoods of mixed income and mixed use. The Foundation hopes that new efforts to develop market-rate housing in

downtown Chattanooga will someday connect to Brabson Hill, which is at the north end of downtown. Some of the new exits from the four-lane highway along the river edge in downtown punch in near the Brabson Hill neighborhood. This may help to improve the market for housing. Or other opportunities may arise.



These before and after images show the restoration of a circa 1920s house adjacent to the Lyndhurst Foundation's office in the Brabson Hill neighborhood of Chattanooga.

Results from the Foundation Perspective

The Foundation is pleased to have helped spur development of the first houses built for sale in the Brabson Hill neighborhood since well before World War II. The Brabson Hill neighborhood still has a long way to go.

Lessons Learned

Without a special galvanizing event, it takes great patience to redevelop a neighborhood. It also requires an open eye for opportunities.

Contact People

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Other Examples

The Baton Rouge Area Foundation purchased and renovated its own building in 1998 as a symbol of its commitment to downtown revitalization and the principles of New Urbanism. Additionally, the Foundation is building a new office, designing it for optimum ecological sustainability.

IV. C. Occupying a Historic Building to Create a Community Asset and Help Residents to Influence Changes Taking Place in Their Community

An important local building can become a community asset, helping the community to shape its future.

The Public Welfare Foundation and the True Reformer Building

About the Foundation

The Public Welfare Foundation is a private foundation based in Washington, D.C., whose mission is to improve the lives of disadvantaged people around the world. The Foundation makes grants to nonprofit organizations working in areas that include criminal justice, health, disadvantaged youth, disadvantaged elderly, the environment, population and reproductive health, community economic development and participation, and human rights and global security. Founded in 1948 by newspaper publisher Charles Edward Marsh, the Foundation had \$370 million in assets at the end of October 2002.



What the Story Illustrates/ Smart Growth Features

This example highlights renovating a historic building to serve as foundation offices and a community asset.

The Story

The Public Welfare Foundation's first offices in the 1960s were in the now-infamous Watergate complex.

Just a few years ago, the Foundation decided that it wanted to move to its own building. The Foundation's executive director often drove past the five-story True Reformer Building at the center of the U Street Historic District in the Shaw neighborhood in Washington, D.C. Originally dedicated in 1903, it was the first building in the nation to be designed, financed, built, and owned by the African American community after Reconstruction. This historical beaux arts building had been boarded up for ten years, in spite of its illustrious past and that of the neighborhood, which had been the center of African American life and culture during segregation. This neighborhood had been a living example of a thriving mixed-income community, with African American bankers, school principals, and day laborers living in close proximity. The building had been the community's cultural center, housing a variety of musical groups and hosting composer Duke Ellington.



The True Reformer Building in the center of the U Street Historic District in the Shaw neighborhood of Washington, D.C., circa 1900.

The True Reformer Building went on the market in spring 1999, and a developer stepped forward who wanted to transform the building into a discount store. The neighborhood

was in transition. Up and coming young people were starting to move in. Real estate prices were beginning to rise. The executive director of the Public Welfare Foundation saw an opportunity to have an impact on neighborhood redevelopment while preserving a building of huge historical significance. The True Reformer Building had many assets, including a Metro stop (D.C.'s subway) on the block, which also was served by metro buses (Goldman 2001). It offered meeting space on both the ground floor and an upper level auditorium. These spaces could be put back into use serving the community's efforts to make Shaw a place where current residents could continue to live. The executive director presented his vision to the Public Welfare Foundation's board chair, who already wanted to buy a building. He liked the idea of renovating in a neighborhood where the

Foundation already had made grants. The board chair guided the rest of the board to agreement. Some staff had misgivings about moving from the safety of the Watergate Complex to a street littered with graffiti. Yet after spending time in the Shaw neighborhood, they were convinced.

In addition to approval from the board and staff, the Public Welfare Foundation's executive director also wanted support from the community. The Foundation reached out to neighborhood groups representing both long-term residents and newcomers. The Foundation explained how it wanted to be part of the community, making it better, but not different. It wanted to earn community support by restoring the building and making it available to the community. The Foundation produced an architectural plan that preserved the character of the building and many of its spaces.

With community support, renovation began in January 2000 and the Foundation moved in on February 23, 2001. The top two floors were designed to be used by the Foundation as offices for its 26 employees, while the first floor was redesigned to provide a boardroom and community space. The restoration design included the complete renovation of the two-level, 350-seat auditorium on the second floor (Goldman 2001).

When the Foundation purchased the True Reformer Building, it also received an adjacent developable piece of land. Rather than sell this land at a profit, the Foundation convened a community process, including multiple meetings and a survey to determine what community purpose could be met with this land. The Foundation agreed to turn over the land for such a purpose. Residents agreed that what was most important was affordable housing for people who already lived in Shaw who were at risk of losing their housing to gentrification. The Foundation developed a close relationship with a local community-based organization, MANNA CDC, which wanted to build 12 affordable homes. The Foundation insisted on a limited equity cooperative to preserve long-term affordability, while still offering ownership. The Foundation signed a contract with MANNA to turn over the land once the housing was built. The Foundation also funded \$375,000 in predevelopment costs. The deal has been delayed because the Board of Zoning Appeals denied variances the project needs to succeed.

The Foundation has tried to contribute to the community in other ways. Meeting rooms are available to nonprofit organizations and community groups, including a local theater company. The Foundation is providing free space to the African American Civil War Museum until it finds a permanent site. It has allowed a local nonprofit organization for homeless people to use its third floor rent-free. The Foundation also signs on to issues that the neighborhood says are important. It is part of the local community process.

Results from the Foundation Perspective

There is no doubt that renovating a 100-year-old building is more expensive than building a new building. The purchase price was under \$3.2 million and the renovations cost around \$8 million.



The True Reformer Building in 2001, after its renovation. The top two floors are home to the Public Welfare Foundation's office, while the first floor provides a board room and community space. The restoration included the complete renovation of a two-level, 350-seat auditorium on the second floor.

Nevertheless, this was a sound real estate investment. The Foundation has been offered much more than it paid to sell the building. More important, the Foundation is happy with the asset it has created for the Shaw neighborhood and looks forward to continuing to work with

community residents to enable them to remain in the neighborhood. In the several years that the Public Welfare Foundation has been located in the True Reformer Building, it has not had any security problems. The Foundation was burglarized three times in the time it was at the Watergate Complex.

Lessons Learned

The way to use purchase of a building to anchor redevelopment in a community is to do it with the community. In the case of buying a historic structure like the True Reformer Building, the Foundation has

thought of itself as steward of a community treasure rather than owner of a building. In spite of the strong commitment that the Public Welfare Foundation made to longer-term community residents, the renovation of the True Reformer Building has made U Street more hospitable for gentrification. Longer-term community members are in a difficult struggle to preserve a place for themselves in Shaw. Perhaps this is an unavoidable consequence, given the market for real estate. Nevertheless, the Foundation has been a voice that is heard for keeping Shaw a place where people of all different economic and demographic groups can live and work.

Contact People

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Other Examples

The Ewing Marion Kauffman Foundation built its office space in Kansas City to anchor a redevelopment project called Kauffman Legacy Park, which includes a conference center, foundation offices, a garden, and the Missouri Department of Conservation offices. This development is helping to renew interest in the amenities of the Country Club Plaza, Park Central, and Research Park neighborhoods and for living in the Rockhill Homes residential area. The Goldseker Foundation built a new building in Baltimore at a transit stop, which is fully leased. The Annie E. Casey Foundation, a \$4 billion foundation in Baltimore, owns its own building. Just its presence in the neighborhood has brought in retail shops and improved housing, although the Foundation has not done anything specific with initiatives in the neighborhood.

Section 5: *Deposits*



V. A. A Linked Deposit to Spur Neighborhood Revitalization

Deposits have been an effective tool to support the community development activities of community development financial institutions. They also provide encouragement for mainstream financial institutions to try slightly unfamiliar loans.

The Community Foundation of Louisville and Louisville Community Development Bank

About the Foundation

The Community Foundation of Louisville, which was established in 1984, had assets of \$160 million at the end of 2002. The Foundation promotes philanthropy in the Louisville, Ky., area by enriching the quality of life of individuals and serving as a catalyst within the local community. In addition to its unrestricted and field of interest grantmaking, the Foundation awards community grants in support of programs designed to break the cycle of poverty in Louisville neighborhoods, such as Park DuValle.



What the Story Illustrates/ Smart Growth Features

This describes buying market-rate federally insured certificates of deposit that also support neighborhood revitalization, including mixed-income, mixed-use redevelopment projects.

The Story

The Community Foundation of Louisville regularly buys market-rate certificates of deposit from area financial institutions for its short-term investment portfolio. While market returns are the primary investment criteria, the Foundation appreciates it when it also can use these deposits to spur community investment. The Community Foundation of Louisville found such an opportunity when it was approached by the Louisville Community Development Bank to buy a \$100,000 insured certificate of deposit. The Foundation's president, who knew the Bank and its officers well, saw a way to earn a competitive rate of return while contributing to community revitalization.

In 1992, Louisville Mayor Jerry Abramson and a group of business, civic, and religious leaders began to devise a plan to provide continual, long-term improvement of economic conditions in Louisville's inner city. The parts of the city they felt needed the most help included 12 inner-city Louisville neighborhoods located both east and west of downtown. Nine of the 12 neighborhoods were designated as Distressed Communities by the federal government. The mayor's group decided that the best way to improve conditions in what came to be called the "Investment Area" was to develop a private, non-government, and self-sustaining economic engine. The Louisville Development Bancorp, Inc. opened in January 1997, with \$8 million in equity financing and \$20 million in pledged deposits. Today, the bank has over \$32 million in deposits.

The Louisville Development Bancorp created three affiliates to carry out its comprehensive community development strategy in the Investment Area. These are the Louisville Community Development Bank, the Louisville Real Estate Development Company, and their community development partner company, the Louisville Enterprise Group.

Louisville Community Development Bank makes loans to new or expanding small businesses that will either relocate to or expand their services within the

target inner-city neighborhoods; to individuals that are rehabilitating or purchasing homes; to developers for single-family homes and multi-family condos for owner-occupants; and to developers for the acquisition, rehab, or construction of commercial, retail, and other properties in the inner city. Since opening, the Bank has made over \$38 million in loans, creating or saving 1,065 jobs for Investment Area residents. Louisville Real Estate Development Company (LREDC) supports housing revitalization in the 12 inner-city neighborhoods. It creates affordable housing and helps renters to become homeowners. As of the end of June 2003, Louisville Real Estate Development Company had administered \$17,151,491 in construction loans.

Currently, the Bank and LREDC are heavily involved in the Park DuValle Neighborhood Revitalization, a New Urbanist transformation of public housing into a pedestrian-friendly neighborhood with mixed-income homes that are closely integrated with recreation, a town center with retail shopping, and civic spaces. Scheduled for completion in 2008, this 125-acre community will consist of 450 homes and more than 600 apartments for residents with a variety of incomes. The neighborhood also will have schools, parks, a community health center, green spaces, numerous shops, and several churches. The project was one of ten urban design projects to receive the American Institute of Architects' (AIA) Honor Award 2000 for outstanding regional and urban design.

The Louisville Community Development Bank, HUD, and five other institutions are providing the construction loans for the rental buildings. At least 30 different banks and mortgage companies will provide permanent financing once construction is completed.

Loans that the Bank makes are funded solely through certificates of deposit (CDs) that have been purchased by individuals or corporations that believe in rebuilding inner-city neighborhoods. These investors can earn market-rate returns, as has the Community Foundation of Louisville, or they can voluntarily accept below market-rate returns to subsidize housing and community development projects.

Results from the Foundation Perspective

The Foundation is earning market-rates of return while it invests in the community.

Lessons Learned

Because of federal deposit insurance, the Foundation can invest in community development without incurring any risk to principal. It also can earn market rates of return.

Contact People

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Other Examples

The F.B. Heron Foundation has made market-rate insured deposits in 31 community development credit unions and community development banks across the country because these simple, straightforward investments move much needed capital to low-income people and communities. South Shore Bank has many foundation investors in its development deposits that are converted into loans to provide financing to rebuild inner-city neighborhoods. The George Gund Foundation made a \$250,000 linked deposit at National City Bank to support the renovation of a historic structure, the Civic Foundation, in Cleveland Heights, Ohio.

Section 6:
Market-Rate and Close to Market-Rate Equity and Debt Investments



VI. A. Private Equity Investment in a Downtown Development Project Using New Urbanist Design Principles

There are many ways to invest locally in smarter growth real estate development projects. One way is to invest in a local development company committed to smart growth.

The Marshall L. and Perrine D. McCune Charitable Foundation and the Historic District Improvement Company (HDIC)

“Cheaply built, car-dominated projects can provide high returns in five to seven years, but their values decline sharply as the buildings deteriorate and sprawl pushes demand further out. . . . Helping to start or expand a special walkable place where an upward spiral of value creation occurs can be extremely profitable, even if discounted cash flow may not be sensitive enough to recognize the returns.”

— Chris Leinberger, Developer

“HDIC is the kind of sheltering guardian organization that we’d like to see foundations create in their communities.”

— Philip Blumberg, Institutional Investor

About the Foundation

The Marshall L. and Perrine D. McCune Charitable Foundation, the largest grantmaking foundation within the state of New Mexico, is dedicated to improving the physical, social, and economic environment of New Mexico. The Foundation, which has assets of about \$120 million, believes in partnership with nonprofit organizations and other funders. Ninety percent of its grants are for general operating support, and many are multi-year.

What the Story Illustrates/ Smart Growth Features

This highlights a private equity investment in a new mixed-use, mixed-income, pedestrian-friendly downtown district through a “catalytic” development firm that undertakes projects that market studies demonstrate are viable, but that the conventional real estate development industry will not do since they only have experience with conventional, sprawl-oriented suburban development.

The Story

The McCune Charitable Foundation maintains a diversified investment portfolio, with 10 percent allocated to venture capital investments. In the late 1990s, the Foundation’s assets almost doubled, allowing it to invest another \$7 million in alternative investments. The Foundation decided to make its first real estate investment. Foundation staff approached developer Chris Leinberger for advice about whether to buy a majority interest in a well-located 6,000-acre parcel. Leinberger said it might be an excellent investment, but development on this property would conflict with everything the Foundation was trying to accomplish in reducing sprawl and preserving open space. The McCune Charitable Foundation board had already had conversations about socially responsible investment, but these discussions had not led to any changes in investment strategy. While it seemed difficult to draw the line in the sand for social investment, turning down an investment in a new sprawl development seemed clear cut.

After the McCune Charitable Foundation board rejected investment in the 6,000-acre parcel, Leinberger came back with an alternative investment. This one would be higher risk, but, hopefully, also higher return. And it would create a strong example of urban mixed-use, pedestrian-friendly development. The key question was whether the Leinberger project had a chance to succeed. Downtown Albuquerque had not seen a private sector building permit in 15 years. There was no nightlife and no housing. Retail was geared to lunchtime five days a week. The highest and best use of land was surface parking lots at \$8 to \$12 a square foot land value, more than any alternative real estate use, such as housing, could justify. The Leinberger project would be integrated, complex, and mixed-use, and, therefore, higher risk.

The McCune Charitable Foundation decided that conditions were right for downtown revitalization. The developer and his firm, Arcadia Land Company, were experienced. The mayor was leading efforts for downtown redevelopment. The head of the Downtown Action Team also was on board. The Downtown Action Team was responsible for coordinating implementation of a new comprehensive strategy for the redevelopment of the downtown, including 17 task forces formed to address such issues as development and funding of structured parking and the complete revision of the zoning code for downtown. The Foundation also could be of help with downtown business leaders because of its deep roots in the community and history as a local leader.

The McCune Charitable Foundation decided to join Arcadia Land Company, Leinberger's development firm, and the Downtown Action Team in forming the Historic District Improvement Company (HDIC), a limited liability corporation, to redevelop a 12-block area of downtown. This accomplished one of the task force goals, which was to create a "catalytic" development firm to develop projects that market studies demonstrated were viable, but that the conventional real estate development industry would not do. The McCune Charitable Foundation agreed to invest the entire \$7 million it had allocated for real estate in HDIC. Because \$7 million would be more than the 20 percent interest the Foundation was allowed by law to own, the Foundation needed help structuring its investment. The accounting firm of KPMG Peat Marwick proposed that the McCune Charitable Foundation invest \$1.25 million in HDIC, which would give it a 20 percent ownership interest, and also make \$5.75 million in program-related investments in HDIC projects. The Foundation had never before done a PRI, but this seemed a good approach.

In exchange for its 20 percent partnership interest in HDIC, the McCune Charitable Foundation received a beneficial interest in the flow of income from HDIC. The exact formula is described later in the story. The \$5.75 million in subordinated loans secured by various projects undertaken by HDIC were at 4 percent interest, non-compounding, with repayment deferred until the partnership began to distribute profits. The Foundation knew these were patient investments and did not expect any returns for at least five years. The Downtown Action Team also received a patient 2.85 percent carried, non-voting, interest.

The Foundation supported and enhanced the redevelopment effort through about \$1 million in grants to various nonprofit groups in downtown. It gave a grant to the university for a facilitator to bring the downtown neighborhoods together to give their input on the downtown plan. It purchased a downtown building with HDIC to keep a contemporary arts organization from being forced to move. It also gave grants to 1000 Friends of New Mexico and the New Mexico Public Interest Research Group (PIRG) for policy advocacy in support of the new downtown plan.

The HDIC responded successfully to a competitive request for proposals from the city for development of the 12-block section of downtown. With other strategic buildings it purchased, HDIC had over \$150 million of potential development under control, much of it without using its own capital for acquisition. The development agreement with the city called for the investment of \$8 million by the city in the 12-block redevelopment district, including the land, two parking structures, seven years of tax abatement and some infrastructure improvements. The HDIC agreed to pay back the city for this investment by sharing 25 percent of the HDIC cash flow from the projects in the 12-block district in years six to 12 and 50 percent in years 13 to 20. The city council agreed to reinvest these returns in downtown development. To enable the new development, new planning and zoning documents were written and approved by the city council.



The Century Theater Block in downtown Albuquerque "burys" the 50,000 square foot, 14-screen big box theater behind seven individually designed retail/office buildings that surround the theater, except for the two story entrance on a full two-acre city block that was formerly a surface parking lot.

The plan for the 12-block project area included 500,000 square feet of housing, retail, movie theater, and office space, two parking garages, and the development of an inter-modal transportation center, including the redevelopment of the old train station for Amtrak. The two-block first phase of development included an 110,000 square foot 14-screen theater, retail, and office project supported by

a 630-car parking garage. All of the projects include retail and restaurants at the street level, done by “burying the box” design of the 50,000 square foot movie theater and the parking structures, so that nearly all ground floor uses are pedestrian friendly.

The HDIC tried five times to bring in conventional developers as “vertical development” partners to provide project design, financing, construction, and marketing. When it could not find developers willing to build with the design and construction quality it sought, HDIC assumed complete development responsibility. The path HDIC chose resulted in construction costs double the norm for the theater mixed-use project. To make the debt financing work, the \$20 million project had 50 percent equity financing, far above the norm. The early financial performance of the Theater Block project justified the additional investment in quality construction sooner than expected. The prevailing annual retail rents downtown in 2000 were between \$8 and \$10 per square foot. The Theater Block retail rents were projected to be \$18 to \$19 per square foot. In fact, the actual retail rents in 2003 were between \$22 and \$27 per square foot. The office rents in the project were the highest in the metropolitan area. The HDIC’s Gold Street Lofts project is expected to be the most expensive housing in the city (DellaFlora 2003). Leinberger believes this would not have happened if the construction quality had been compromised as proposed by the initial joint venture partners. By assuming complete development responsibility, HDIC’s overhead had to dramatically increase and the principals in HDIC could not take any compensation, living off of personal savings.

The HDIC developed a unique three-tranche scheme to attract investors to the Theater Block project. The HDIC sought out mainstream real estate investors to invest in a first tranche, which would provide the quick returns most real estate investors expect. Because smart growth projects can take longer to produce value, more patient second tranche and third tranche investors were crucial. The HDIC was the second tranche investor, receiving nothing until the first tranche commitments were met, then receiving all of the profits for five years, 75 percent for the next six years, and 50 percent for next nine years. When this 20-year payoff period ends, the second tranche investors will receive all of the profit. The city was a third tranche investor, and, as such, will receive the other 25 percent of the profit during

the six years when the second tranche investors are receiving 75 percent and the other 50 percent for the next nine years or until 125 percent of its investment is returned, whichever occurs first.



The Gold Avenue Loft in downtown Albuquerque “buries” a 180,000 square foot, 630 car parking structure, set 45’ back from the sidewalk. It is the most complex and high density building in New Mexico, combining rental retail, for-sale office, and for-sale residential on 12,000 square feet (150 dwelling units to the acre). The top image is a rendering of the project design and concept, while the bottom image reflects the project’s progress, as of summer 2004.

The HDIC did not find many takers for its first tranche investment product for its initial projects, which offered a lower than usual rate of return, around 13 percent, in exchange for the quick exit and the lower risk position of receiving 100 percent of the free of clear cash flow in the early years. The primary first tranche investors were Fannie Mae’s American Communities Fund and some private individuals. Therefore, working with American Venture Realty, a private real estate fund manager in Miami, HDIC helped create the New Mexico Urban Initiative Fund, an infill, smart growth fund for downtowns throughout the state. The New Mexico Urban Initiative Fund is intended to become a \$50 million fund raised from state permanent funds, banks, and foundations. The banks will receive CRA

credit for investment and rates or return net of fees of 10 to 13 percent. The McCune Charitable Foundation has agreed to put an additional \$5 million into the New Mexico Urban Initiative Fund. The Fund has invested \$1.5 million as a first tranche investment in the \$15 million Gold Avenue Lofts project that will be completed in the fall of 2004. This is a 41-unit for-sale housing and office project with ground floor rental retail.

To ensure that affordable housing is available in a revitalized downtown, the McCune Charitable Foundation is working with HDIC, the Enterprise Foundation, and the Ford Foundation to create the Downtown Albuquerque Civic Trust. The Trust will invest in affordable housing, the arts, affordable commercial space, parks, and outreach to surrounding neighborhoods. The city has agreed to put its share of the HDIC future cash flow into the Trust. The Trust also would receive other funds from HDIC, the Downtown Action Team, and other downtown developers. The Trust's cash flow is expected to equal 40 percent of the HDIC cash flow until year 2021 or between \$12 million to \$15 million. Pledging this cash flow, the Trust will try to borrow from foundations, allowing it to implement its business plan for affordable housing now, rather than when gentrification has inflated land and property values too much to build affordable housing (Funders' Network 2002b). The business plan, available at www.abqcivictrust.org, calls for over 200 affordable housing units within three years.

Results from the Foundation Perspective

Although this story is far from complete, the McCune Charitable Foundation is optimistic that HDIC could be one of the best investments it has made. The social and economic change downtown is remarkable and visible. By 2003, 85 percent of the goals of the comprehensive strategy for the redevelopment of downtown Albuquerque were completed. Plans were adopted that put in place supportive zoning and parking codes. A new design process rewarded good design. A state law allowing local areas to establish business improvement districts was taken advantage of by local property owners, creating a \$750,000 budget for increased security, cleanliness, and promotions. The city raised \$25 million of bonds for parking structures. Over \$400 million in projects were underway or complete in downtown by the end of 2003. One-way streets have been converted to two-way. A multimodal

transit terminal is being built, as is a street that will terminate at the new station. A charter high school is moving into a historic former post office downtown, with no dedicated on-site parking (students will use the public transit system, which will include new bus rapid transit by the end of 2004). The historic city high school has been very successfully converted to lofts. And plans to create the Downtown Albuquerque Civic Trust are progressing with the Internal Revenue Service (IRS) granting it 501(c)(3) status in record time and a new executive director being named.

Commercial space is garnering above-average rents, despite a 17 percent office vacancy rate in the city (Steuteville 2002). The first new residential rentals—220 units—came in two years ago at rates about 20 percent above the highest rates in the city. Rents in the next phase are even higher. Although the top rental rate in the city is 87 cents per square foot, rents downtown are between \$1.04 and \$1.15 per square foot. And housing sales are even hotter. In a complex of 41 lofts, 16 have been pre-sold at about \$232 per square foot—twice what properties are selling for anywhere else in the city (Stahl 2003). While the Albuquerque area only experienced 5 percent housing price increases in 2003, the downtown area showed a record 25 percent increase, both showing the success of the revitalization effort and the need for the Civic Trust.

It is looking more and more likely that this investment will generate significant mid-term returns to the Foundation. If the projections hold up, 20 percent of the Foundation's annual grants budget will be covered by HDIC's cash flow within nine years, though the initial investment was 6 percent of the Foundation's corpus. The potential is still much greater further down the road due to the possibility of the upward spiral of value enhancements successful downtowns experience (Leinberger 2002). Because the development still needs more housing and a grocery store (plans are moving forward for an urban grocery store) to reach critical mass, the McCune Charitable Foundation has made the decision that it will reinvest PRIs that are being repaid early, at least for the next few years.

Lessons Learned

After 31 plans failed, this one is being implemented because it was multi-pronged: policy, public outreach, planning, and projects. It addressed 100 things at once. It responded to market demand, was based on market data, connected to the rest of the city, and built on a clear, simple description of what the city

wanted with zoning documents to support it. Partners and timing were critical, as were the right skill sets and integrity. It is also private/nonprofit sector-lead, keeping much of the day-to-day decisions out of the political process. National Public Radio (NPR) has referred to downtown Albuquerque as “the fastest downtown turn around in the country’s history.”

Because a foundation is created in perpetuity, it can and should think long term. Foundation support of smart growth real estate projects is an important long-term investment. It can facilitate neighborhood revitalization. It also has a broader effect by creating a track record for this emerging class of real estate. The executive director at the McCune Charitable Foundation oversees both investing and charitable giving. This makes it easier to coordinate the two activities than it would be for many larger foundations (Langdon 2002).

Contact People

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Other Examples

The Jacobs Family Foundation is a limited life foundation, whose goal is to develop pathways for residents to own and drive change in their communities. Its work is focused on a network of neighborhoods in southeastern San Diego. It is working with residents to develop Market Creek Plaza development, planned to become a vibrant, walkable town center in southeastern San Diego. The Foundation, through its sister operating organization, the Jacobs Center for Neighborhood Innovation (JCNI), purchased the property for Market Creek Plaza for \$3.6 million and invested, with a set of resource partners, \$20 million in developing a grocery store, 42,000 additional square feet of retail, and placemaking amenities such as a 500-seat amphitheater, walkways, and bridges over a dry creek, and a trolley underpass.

VI. B. Private Equity Investment in Individual Buildings

There are many ways to invest locally in smarter growth real estate development projects. One way is to buy buildings. Foundations, with their local knowledge and relationships, can be good local real estate investors.

The Libra Foundation— Revitalizing Downtown Portland, Maine, and the Pineland Campus

About the Foundation

The Libra Foundation, a \$300 million private foundation, is committed to the betterment of the state of Maine. It donates between \$10 million and \$15 million a year to Maine charities. Its endowment comes from the estate of Elizabeth B. Noyce, wife of one of the founders of Fairchild Semiconductor and Intel Corporation.

What the Story Illustrates/ Smart Growth Features

This example describes investing in and managing local real estate to spur revitalization. Features include renovation of downtown commercial and retail buildings, creating a public market, building structured parking, open space preservation, and preservation of historic buildings.

The Story

In 1990, many banks were failing. The largest failure in New England was the Bank of New England, which managed Mrs. Elizabeth Noyce’s assets. Mrs. Noyce’s lawyer and advisor, Owen Wells, suggested she start a new bank, both to have her assets managed as she preferred and to do something for the people of Maine. Maine Bank and Trust was an instant success.

The Maine Bank and Trust was located in downtown Portland, leasing a turn-of-the-century bank building. Portland, like many cities in the Northeast, had fallen on hard times. The manufacturing base had moved elsewhere. Retail business had gone to malls in the suburbs. Mrs. Noyce wanted the Bank to make a statement to the people of Maine that she believed in Portland. With the help of her advisor, Owen Wells, the Bank began to look for a building to buy from among the many office buildings downtown that were owned by insurance companies, acquired due to foreclosures. The Bank found it could not buy the building it wanted unless it bought another building across the street. And, as time passed, Mrs. Noyce discovered an adjacent office tower that she believed would be an excellent investment property. Mrs. Noyce decided to buy all three buildings. When it was announced that she had acquired the properties, it was front-page news in Portland. Editorials appeared describing Mrs. Noyce's faith in downtown Portland. While Mrs. Noyce had planned to sell two of the buildings, she saw how important it was that she hold on to them.

Mrs. Noyce and her advisor began to study how to fill the buildings, one of which was less than 50 percent leased. They decided to upgrade the buildings to meet the needs of office tenants. Mrs. Noyce and her advisor started talking to employees and employers, who identified the lack of parking in downtown Portland as a major barrier to locating in the city. They decided to build a 650-car parking structure on land that was acquired along with one of the office buildings. On one part of the land were a few old buildings that local artists were using as studios. To avoid dislocating the tenants, the Noyce team began to look for other downtown space for the artists. There was a building further downtown where a J.J. Newberry had shut off the lights and left behind a large retail space complete with counters and cash registers. The Noyce group concluded that this was not the right space for the artists. If Portland was ever going to have retail downtown, this was the place. Ultimately, the artists found other space on their own.

Mrs. Noyce built the parking garage, but also bought the J.J. Newberry building for \$250,000. Noyce and Wells began talks with L.L. Bean to come downtown for the first time. Mrs. Noyce persuaded the Chairman of L.L. Bean that she would make the project a success, even paying for the store's

renovation. In 1995, the renovation work began on the 60,600-square foot space that included the L.L. Bean store space, as well as four apartments above the store, which all were quickly leased. Once the parking garage was built and the store in place, it became easy to lease 100 percent of the space in Mrs. Noyce's office buildings. Once it was clear that the L.L. Bean store was doing well, other stores came into downtown Portland, including North Face directly across the street, Olympia Sports, and many smaller stores, too.

To make the most of the flow of traffic, the Noyce team helped to create the first brand new public market in the United States in 100 years at a cost of \$9 million. Pedestrians walking from the garage to the office buildings and shopping must pass through the public market, which has 28 independent food-related entrepreneurs.

Before the Portland Public Market had a chance to open, Mrs. Noyce died and willed all of her assets to the Libra Foundation. Until that time, the \$20 million Foundation had all of its assets in marketable securities. The Foundation, now with \$300 million in assets, found it had become the owner of a bank, three large office buildings, a retail building, a parking garage, a public market, and the largest baker in New England with 1,100 employees.

Soon after, the stock boom ended. As the Foundation learned about its new portfolio of assets, it discovered that while real estate represented 20 percent of the Foundation's portfolio, it was producing as much as 50 percent of the Foundation's grant flow. Seeing what a good investment the buildings had been, the Libra Foundation's board decided to purchase more real estate both for current income and capital appreciation in the future. While it could have bought shares in REITs or limited partnerships, the board decided it should stick with what it knew, which was Portland, Maine. The Foundation purchased three more Class A downtown office buildings close to its existing buildings for \$11 million through October Corporation, its nonprofit real estate holding company.

In 2000, the Foundation made quite a different real estate purchase. October Corporation purchased a shut-down state mental health complex 30 minutes from downtown Portland called the Pineland Center. The Foundation negotiated with the state of Maine to buy the Pineland Center for \$250,000, including

28 brick buildings and 1,600 acres, and an adjacent 1,000 acres for \$900,000. The governor agreed to support redevelopment of the complex by helping to address such issues as transportation and environmental quality. The land and buildings were beautiful, but dilapidated and contaminated. There already was a bowling alley, athletic building, and other recreational facilities. There was open space for cross-country skiing. The Foundation saw a business opportunity in making Pineland attractive to suburban and rural businesses and residents, both for work and recreation. Pineland could become a hub for the surrounding rural and suburban communities miles outside of Portland. It could be a center of community and regional affairs.

The October Corporation began to renovate the buildings at the Pineland campus and add new buildings. Employers, such as Energy East, began to locate in Pineland, as did dentists, doctors, and lawyers. A local YMCA moved into the Pineland Athletic Center, soon garnering 1,000 new members. People began to ask to rent Pineland buildings and land for weddings, fund-raisers, and other events. People began to use the recreational facilities, including a new equestrian center. The Foundation brought back farming to Pineland, producing milk, cheese, and chickens. It began to demonstrate new farming methods to area farmers. It offered educational programs for children to learn about farming and farm animals. The Foundation decided to leave all of the 3,000 acres of open space forested and is building trails where people can hike, ride horses, and ski.

The Foundation has begun to generate cash flow from its investment and to see the potential for much more. Pineland Farms, Inc. a stand-alone Maine nonprofit corporation leases the farms from October Corporation and runs all farm and education programs at the three farms surrounding the Pineland Campus, while CB Richard Ellis-The Boulos Company of Portland, Maine, manages the Pineland Campus property on behalf of October Corporation.

With the purchase of Pineland, the Foundation decided it needed to rebalance its investment portfolio by selling some of the downtown office buildings. The Foundation sold one of the pair of buildings Mrs. Noyce purchased years ago for \$9.5 million. (Mrs. Noyce had paid \$8.8 million for both buildings). The Foundation sold the L.L. Bean

building for \$2.2 million, almost a tenfold profit. And it sold a third building it had purchased three years earlier for \$5 million more than the purchase price. The Foundation held onto four buildings, as well as Pineland Campus.

Results from the Foundation Perspective

As the owner of one million square feet of property, the Libra Foundation is one of the largest landowners in the area. Mrs. Noyce's investments, which became the Libra Foundation's investments, helped to spark a revival along Congress Street in downtown Portland. Downtown Portland is a much more vibrant place now than it was in 1990. The buildings are all profitable and the Foundation has earned significant capital gains on its building portfolio. Pineland is becoming an integrated business, nonprofit and agricultural campus. The Foundation continues to subsidize the public market, but the subsidy is decreasing.

Lessons Learned

A foundation can accomplish social goals at the same time that it makes sound portfolio investments. In pursuing real estate investments, it is important to stick to what you know. The trustees of the Libra Foundation knew the real estate market in Portland, not Dallas. The Foundation's success has been a function of strong relationships within the community with civic, business, and government leaders.

Contact People

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VI. C. Private Equity Investment in a Smart Growth Real Estate Fund

There is a growing array of professionally managed equity investment funds targeting smarter growth real estate development.

The F.B. Heron Foundation and Bay Area Smart Growth Fund I, LLC

About the Foundation

The F.B. Heron Foundation, whose mission is “helping people and communities to help themselves,” had assets of \$255 million at the end of 2003. The Foundation’s mission-related investment portfolio was \$49.6 million. Approximately \$32.3 million was market-rate or near market-rate mission-related investments.

What the Story Illustrates/ Smart Growth Features

This example describes equity investment in a professionally managed smart growth real estate fund to support mixed-use, mixed-income commercial, industrial, and housing developments close to public transportation that do not displace residents, produce high quality jobs, create and recycle wealth for residents, and build healthy self-reliant communities.

The Story

The Heron Foundation has been slowly shifting its portfolio to mission-related investments. This has taken time because the Foundation has exercised great care in identifying investments that are likely to produce both strong benefits for low-income communities and market-rate returns. When the Foundation heard about the Bay Area Council and the Bay Area Smart Growth Fund it had helped to create, Foundation staff believed this investment might prove a good match. The Bay Area Smart

Growth Fund is a quality market-rate investment in line with the Foundation’s mission of creating new home ownership opportunities and neighborhood revitalization that would support wealth creation.

The Bay Area Council is a CEO-led nonprofit organization dedicated to promoting economic prosperity and quality of life in the Bay Area of California. The Council stands out from other CEO-led alliances for its strategy of achieving sustainable development by identifying the major stakeholders in the region, achieving consensus among them on sustainability objectives, and then creating a work program and timetable for addressing these issues. To help to reach these agreements, the Council organized the Bay Area Alliance for Sustainable Development, a regional growth management initiative composed of 40 other organizations and five regional agencies.

As an early joint project, the Council organized the Bay Area Alliance’s Community Capital Investment Initiative, which created three investment funds to revitalize the Bay Area region’s 46 poorest neighborhoods (CEOs for Cities 2002). The Bay Area Smart Growth Fund I, LLC was one of the three investment funds. Pacific Coast Capital Partners, LLC, was brought in to manage the Fund in conjunction with the Bay Area Council. The Smart Growth Fund would invest in real estate developments in economically depressed neighborhoods that could be made financially viable, but were not yet sufficiently attractive to private developers.

The Heron Foundation was impressed with the Bay Area Council’s willingness to target investment to specific low-income neighborhoods; the level of collaboration among the private sector, government, and community groups; and the elaborate community consultation process. A Community Investment Roundtable, which is comprised of members from a Business Council, Community Council, and Government Advisory Council, directs the Alliance’s Community Capital Investment Initiative. The Community Council has created a decision-making structure that gives all of the targeted neighborhoods representation (CEOs for Cities 2002). The Heron Foundation was very interested to see whether the community consultation process would facilitate better decisions or hamstring them.

The Heron Foundation decided to invest \$1.5 million in the Smart Growth Fund, which was

structured as a ten-year fund that could be extended for up to two years. Once investors received a return of 9 percent and a return of capital, then proceeds would go 79 percent to investors, 19 percent to the managing partner, and 2 percent to the Bay Area Council. The Heron Foundation underwrote the investment no differently than other private equity investments, giving strong consideration to the track record of the management team and the viability of the business model. As with all Heron Foundation investments, there also was an approved social impact plan in alignment with Heron's program interests. The investment period closed in December 2002 with \$65 million in committed capital. The Bay Area Council is aiming for a return in the mid-to-high teens for the Fund.

Results from the Foundation Perspective

The Heron Foundation does not expect to see any returns until the fourth or fifth year of this investment, but is pleased with the progress to date. The Bay Area Smart Growth Fund already has invested in a number of projects, including an Oakland industrial park, a retail plaza, and land zoned for high-density, single-family, low- and moderate-income housing. For example, the Bay Area Smart Growth Fund partnered with two developers to form Oakland Harbor Partners, LLC, and became the master developer for a 60-acre parcel located near downtown Oakland. Oakland Harbor Partners, LLC, will build a mixed-use development, including condominium and single-family residences and commercial space. It seems valuable to have so many engaged stakeholders. Community groups have been a source of pipeline deals. Although there is some tension concerning what should be the social return of each project, this has been handled in a positive way.

Lessons Learned

Smart growth deals in low-income communities need to be in the context of a broader revitalization strategy. Opportunities are growing for market-rate investment deals that align with a community wealth-building mission and deliver a social return. Yet the requirements of a direct program fit, a serious investment discipline, and demonstrable social impact have meant that a small percentage of the deals the Heron Foundation reviews result in investments. It is often difficult to find partners within the foundation community because of the

“wall” between finance and program. The Heron Foundation has found early partners more readily among colleagues within financial institutions and pension funds (King 2002).

Contact People

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Other Examples

The California Community Foundation is an investor in the \$85 million Genesis LA Real Estate Fund LLC, which is managed by Shamrock Capital Advisers. It invests in at-risk sites because of contamination, obsolete buildings, and old infrastructure to benefit low- and moderate-income neighborhoods within Los Angeles County. The John S. and James L. Knight Foundation is contemplating an investment in the South Florida Urban Initiatives Fund, which will be managed by American Ventures Realty Investors. The Fund will seek projects in designated redevelopment zones with supportive public policies and various smart growth features, including pedestrian- and transit-accessible, mixed-use and mixed-income, infill and brownfield projects. American Ventures Realty Investors also is working with the McCune Charitable Foundation on a New Mexico Urban Initiatives Fund.

VI. D. Limited Partnership Investment in an Inner-City Commercial Real Estate Fund

There is a growing array of professionally managed funds focused on inner-city commercial real estate development.

The Jacobs Family Foundation and UrbanAmerica, LP

“We can’t ask why no one invests in these neighborhoods when we don’t invest in them.”

— Jennifer Vanica, The Jacobs Family Foundation

About the Foundation

Established in 1988, the Jacobs Family Foundation has an endowment between \$20 million and \$25 million. It is a limited life foundation, which until 1997 focused its grantmaking and technical assistance on community-based nonprofit organizations. Since 1997, it has focused on intense place-based community development in southeastern San Diego.

What the Story Illustrates/ Smart Growth Features

This describes equity investment in a market-rate limited partnership to acquire and develop retail, office, and mixed-use space in inner-city neighborhoods and provide employment for residents.

The Story

Around 1997, the Jacobs Family Foundation began a push to align its investment portfolio with its mission. As an early first step, it made an investment in Boston Community Capital and another in UrbanAmerica LP, becoming one of UrbanAmerica’s special limited partners, who as a group committed approximately \$10 million in September 1998 to seed its creation.

UrbanAmerica, LP was one of the first commercial real estate investment companies to focus exclusively on acquiring and developing properties in inner-city neighborhoods.

It tried to bring not only retail firms into these neighborhoods, but also corporate and government offices. Its sponsor, Utendahl Capital Partners, L.P., a leading minority-owned investment bank and broker/dealer, initially raised about \$60 million for this purpose, with target returns of about 20 percent. UrbanAmerica’s primary exit strategy was to become a public real estate investment trust (REIT), but the company also would consider the eventual sale of properties from its portfolio. Many of the investors were banks, as the partnership acquired income-producing properties that met Community Reinvestment Act (CRA) requirements.

Shortly after making its investment in UrbanAmerica, the Jacobs Family Foundation decided to shift its focus to intense place-based community development in southeastern San Diego. The Foundation began to work directly with residents to develop Market Creek Plaza, a walkable town center in southeastern San Diego. Because of this shift in focus, the Foundation decided it wanted to be more proactive with its investments. It began to use every investment tool at its disposal, from equity to loan guarantees, on the Market Creek Plaza development project, a 20-acre commercial and cultural center in the Diamond Neighborhoods of San Diego. Yet it remained a satisfied investor in UrbanAmerica LP. The Heron Foundation also is an investor in UrbanAmerica LP, as are a number of banks, insurance companies, and pension funds, including Los Angeles County Employees Retirement Association (LACERA), which invested \$30 million.



For the past seven years, UrbanAmerica has worked with national real estate brokers, community development corporations and the National Congress for Community and Economic Development to identify properties to acquire. The cities where investments are made must have local government officials who are dedicated to revitalization of distressed areas, have a vision for revitalization, and

be prepared to invest in development. UrbanAmerica borrows 75 percent of the purchase price for most of its properties (Hochstein 2003).

UrbanAmerica has sought out stable credit-anchored retail, office, and special purpose commercial projects with existing, stable cash flow. It improved these properties structurally and aesthetically, increased occupancy, changed the tenant mix to improve community services and amenities, and strengthened each property's standing in the community by attracting consumer traffic and offering employment opportunities to local residents. UrbanAmerica hires residents as contractors, vendors, and employees. Sixty percent of operating expenses for UrbanAmerica properties is directed to community-based or minority firms (Ragin int. 2003).

As of July 2003, UrbanAmerica, LP, capitalized at \$120 million, owned and operated a \$324 million portfolio of 28 properties representing 3.7 million square feet of office and retail space, which is 95 percent occupied. UrbanAmerica projects were located in New York, Philadelphia, Newark, N.J., Baltimore, Washington, D.C., Chicago, Atlanta, Birmingham, Ala., and parts of Florida. Twenty-five percent of the properties purchased to date were CDC properties (Ragin int. 2003). For example, Marshall Heights CDC in Washington, D.C., is a nonprofit community-based organization that sold 60 percent of its East River Shopping Center to UrbanAmerica. UrbanAmerica committed to a three-year capital improvement program for the Center. UrbanAmerica also worked jointly with Marshall Heights CDC to identify and develop retail and commercial office projects near the center.

UrbanAmerica had the first closing of its second fund, UrbanAmerica LP II, in March 2003, at \$60 million. UrbanAmerica expects to see more new investors, with the fund growing as large as \$300 million. This fund will focus much more on new development than acquisition and on mixed-use projects, especially a mix of office, retail, and for sale housing. It is no longer possible to buy stabilized properties because prices are high. The community revitalization plans that UrbanAmerica is seeing generally require mixed uses. For example, UrbanAmerica LP II purchased the Lauderdale Lakes Mall in Broward County, Fla., including 250,000 square feet of retail and 14 acres of vacant land zoned commercial. UrbanAmerica did a highest and best

use study, which showed the community needed new housing connected to the shopping center with good transportation and pedestrian access. After the city changed the zoning, UrbanAmerica, sold the land to a housing developer to build 250 units of moderate and market-rate income housing. This is the first new housing in the area in 20 years.



These before and after images show the development of Market Creek Plaza, a 20-acre commercial and cultural center in the Diamond Neighborhoods of San Diego.

Results from the Foundation Perspective

The Jacobs Family Foundation still has its investment in UrbanAmerica. It is satisfied with UrbanAmerica's performance, but, because of its change in focus, has not worked to keep a close relationship with the partnership. UrbanAmerica has demonstrated to institutional investors the viability of inner equity investment and enabled low- and moderate-income people to shop and work where they live (Ragin int. 2003).

UrbanAmerica, LP investors have been paid 8 percent per year. UrbanAmerica is projecting returns in the mid-teens when investors exit the portfolio through sale or creation of an REIT in 2006 or 2007. UrbanAmerica also tracks its "double bottom line." UrbanAmerica has created 1,500 new jobs in low- and moderate-income communities. It also has helped to create hundreds of jobs for local residents and revitalized communities.

Lessons Learned

With a fund, there is diversification and professional management, but there is little control over how the funds are invested. For a foundation that wants to be proactive and have an intense place-based impact, direct investment may be a better choice. But for a foundation that is trying to invest its assets in a diverse portfolio of smart growth investments, professionally managed funds may be a better option.

Contact People

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VI. E. A Debt Investment to Finance the Purchase of Land for the Construction of Affordable Infill Housing to Enable Moderate-Income Residents to Live Near Their Work

In the current bond market, which is dominated by low average returns, there are opportunities for market-rate, or, at least, close to market-rate fixed income investments in affordable housing and other community revitalization projects.

Santa Barbara Foundation and the Housing Authority of the City of Santa Barbara

About the Foundation

The Santa Barbara Foundation, the largest private grantmaker in Santa Barbara County, Calif., has assets of \$180 million, with 55 percent unrestricted funds. The Foundation is interested in such local issues as the high cost of housing, long commutes and traffic congestion for workers who cannot afford housing, loss of nonprofit organization staff who cannot afford housing, polarization of the environmental and development communities, and open space preservation (Eisen 2003).

What the Story Illustrates/ Smart Growth Features

This tells the story of a medium-term investment in property to create pedestrian-friendly, affordable housing for the local work force and staff of nonprofit organizations.

The Story

Affordable housing is on everyone's radar in Santa Barbara. Housing costs are prohibitive and there is a shortage of affordable housing. With housing

subsidies in short supply, the Housing Authority of the City of Santa Barbara hoped to find new partners to stretch its resources further. The Housing Authority found a piece of land for sale that would be appropriate for future affordable housing development, 90 price-restricted ownership units for workforce income levels of 120 to 200 percent of AMI. It needed a partner.

At the same time, the Santa Barbara Foundation, which already had supported the development of affordable housing, was exploring how it could help create housing opportunities for career staff of nonprofit organizations in the community. The Foundation saw density in infill locations as a potential solution to the problems facing the region.

The Housing Authority approached the Foundation based upon an existing relationship. The Santa Barbara Foundation was willing to invest in the land if some units could be made available for career staff of local nonprofit organizations. The Housing Authority agreed that a yet to be determined number of units would stipulate a preference for career employees of nonprofit organizations in Santa Barbara.

The Santa Barbara Foundation's board agreed to make a \$3.5 million, four-year, 4 percent loan to the Housing Authority. It would be an interest-only loan with a balloon payment of principal. The loan would be secured by the property, which had an appraised value of \$4.2 million. While there had been some environmental issues with the land, which were remediated, the Housing Authority chose to take out an insurance policy to manage any residual environmental liability as a precautionary measure.

At least initially, the Santa Barbara Foundation board will only assess performance of this loan based upon financial returns. The board considered this loan an investment rather than a PRI because it would exceed returns on current investments with little additional risk, albeit with less liquidity. The loan will be reviewed as part of the Foundation's investment portfolio. The board agreed that, down the road, the Foundation might also develop measures of social performance. Although the Foundation has no formal say in how the land will be developed, the Foundation and Housing Authority have agreed to work out a plan for reserving units for employees of nonprofit organization. The Foundation wants to be flexible on this account. When the loan is repaid, the Foundation board may consider rolling the investment into a loan fund.

Results from the Foundation Perspective

The Santa Barbara Foundation's board sees this loan as a sound portfolio investment. If the loan is repaid and the affordable housing built, the board will consider additional similar investments.

Lessons Learned

The Santa Barbara Foundation had to be patient and flexible to close the loan. It took three months to structure and complete the deal. There were environmental issues. Because of the uncertainty about when the loan would close, it was a challenge to know when to liquidate securities to generate cash for the loan.

Contact People

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Other Examples

The Community Reinvestment Fund (CRF) is a national nonprofit organization that is widely known as a secondary market for community development loans. The CRF anticipates that mixed-use real estate loans will represent a growing share of its activity. The mixed-use deals that CRF has purchased typically range from \$300,000 to \$1 million. The Heron Foundation has a separate bond account with CRAFund Advisors. CRAFund Advisors has placed it into rated transactions and some privately placed securities, including asset backed securities for Habitat for Humanity, Community Reinvestment Fund bonds, mortgage pools, housing related paper issued by state authorities, and taxable municipals for economic development. All are investment grade or equivalent. The performance of this bond portfolio is tied with the Lehmann Brothers Index. The Heron Foundation buys paper as a matter of course created by issuers. Sometimes it is the sole buyer of an issue. CRAFund Advisors has very few foundation accounts. CRAFund Advisors also manages the CRA Qualified Investment Fund, a mutual fund in which the Heron Foundation does not invest because it includes rental housing. For the 12 months ending December 31, 2002, the fund's one year annualized return of 10.60 percent exceeded 92 percent of the 677 intermediate-term bond funds tracked by Morningstar.

PART IV: *Next Steps*

Every story in this guide has been both a description of what foundations have done and a guide for what still needs to be done many more times in many more places. Part II of the guide described regulatory and financial barriers that still need to be addressed in most parts of North America. Some of the more important next steps for foundations that want to support smarter growth real estate development are described in this section of the guide.

Next Steps: Policy & Planning

Assist efforts to improve zoning, building, and infrastructure policies.

As described in Part II, smarter growth real estate development needs “by right” zoning for mixed use. It needs city site review by people who understand smart growth design issues. It needs pedestrian-scale street standards. It also needs higher transit frequency in high-density corridors (Fleissig 2003). A local voice saying smart growth is needed is critical, showing how to change policy to make it possible to build in this way, and educating developers. Smart growth also requires supportive state policies, especially for allocation of infrastructure and transportation resources. Especially helpful is to have not only sticks, but also carrots. For example, projects should rank higher for low-income tax credits if they are near transit in an urban area (Poticha int. 2003). The experiences of the Surdna Foundation with the Four State Smart Growth Initiative, the Hewlett Foundation with Envision Utah, and the McCune Charitable Foundation in downtown Albuquerque suggest what it will take to have an impact on these policies.

Improve the coordination of resources directed to advocacy for a better regulatory climate for smarter growth real estate development.

The few resources that are directed to advocacy are not well coordinated at the local, state, and national level. There needs to be a national network to ensure that each region doesn't reinvent the wheel and has the evidence needed to make a compelling case (Poticha int. 2003). This was one of the Surdna Foundation's lessons from the Four State Smart Growth Initiative.

Support planning for key smarter growth real estate development projects.

Planning money can be particularly difficult to secure from the private and public sectors. Grants and PRIs can help relieve this pressure. Foundations can minimize the perception of risk by supporting up-front planning and enabling partnerships (Belzer int. 2003). The experiences of the Lyndhurst Foundation in Chattanooga, the Baton Rouge Area Foundation in Baton Rouge, and the charrettes undertaken by the Knight Fellows in Community Building Program at the University of Miami School of Architecture all demonstrate the importance of a support for planning. The first two of these three examples go a step further, demonstrating the benefits of a “third sector” master developer (Fleissig 2003), consistently sustaining the long-term vision for smarter growth real estate development and use leadership and assets to move it forward step-by-step.

Reach out to the planning and development communities.

Most of the stories in this guide include descriptions of supportive public leaders willing to change policies and provide capital. For this to happen in more places, there must be more education. It is important to involve the National Association of Counties, National League of Cities, and U.S. Conference of Mayors in improving zoning and building codes and participating in smart growth projects. The members of these organizations also need easy access to best practices on such topics as design. It would help too to enlist the help of the Institute of Transportation Engineers (ITE) and the American Association of State Highway and Transportation Officials (AASHTO) to reconcile transportation policies with and smart growth goals. Because of the critical role of design in smarter growth real estate development, it also could be productive to encourage ULI, AIA, and APA regional chapters to develop or assist prototype projects (Fundurers' Network 2003).

Educate appraisers.

Will Fleissig, a New Urbanist developer, has suggested a new project to educate appraisers about the value lift in infill, mixed-use, and traditional neighborhood design project valuation. The Appraisal Institute might welcome a dialogue on new ways to appraise smarter growth real estate development projects (Fleissig 2003).

Next Steps: Investment

Invest in keystone projects to create successful examples in more communities, which will attract more developers and investors.

Demonstration projects remain the most powerful tool in the smart growth toolbox. Every region needs local project, building, and park prototypes within a day's drive. Foundation program-related investments in keystone projects can bring cities and developers to the table. Foundation market-rate investments in these projects can bring other mainstream investors to the table.

Support the creation of more regional smart growth funds, which bring diversification and professional management to smarter growth real estate investment.

These funds need patient investors, and foundations can have a longer time horizon than most private investors. If these funds are successful, they will attract additional investment. It is critical that someone track the performance of these funds.

Encourage real estate investment managers to seek out one or two smarter growth real estate investments in each portfolio.

Foundations can build market acceptance of smart growth development as a product type by encouraging real estate investment fund managers to invest in projects. Foundations can ask that major commercial real estate investment companies invest in at least one smart growth project in each portfolio offering (Belzer and Sigal 2002).

Buy bonds and make insured deposits that support smart growth.

Foundations can ask their bond managers to seek out projects that have smart growth characteristics. They can indicate their interest in such projects to Fannie Mae and Freddie Mac. They can make deposits in insured depository institutions that are involved in community revitalization projects.

Next Steps: Research

Support the collection of data to demonstrate the performance of smarter growth real estate development.

A rigorous research project, describing economic performance over many real estate cycles, could help investors and lenders more accurately gauge the real risk of this type of project (Gyourko and Rybczynski

2002). "If it works, we'll finance it" is the general attitude to smarter growth real estate development, according to Gyourko and Rybczynski. If New Urbanist and other projects can be shown to be less risky than currently perceived, interest rates on loans and required rates of return on invested equity for such developments will fall. No foundation yet has funded a comprehensive analysis.

The Development and Project Implementation Task Force of the Congress for the New Urbanism has undertaken a volunteer project to encourage ongoing data collection about the performance of New Urbanist developments across the United States (Volk int. 2003). Reconnecting America's Center for Transit-Oriented Development is also considering performance research projects (Poticha int. 2003).

Support research to understand how to do smarter growth real estate development better.

There is still a great deal to be learned about how to create mixed-use, walkable communities. More analysis is needed of the successful neighborhood mix, and what is the optimal residential density to support it. Further work is needed about how to protect lower-income residents from displacement caused by urban revitalization. Another research question is how to bring green building practices to smarter growth real estate development.

Figure out how to get the hidden value of smart growth taken into account in markets.

One of the projects of the recently launched Center for Transit-Oriented Development is to figure out how to improve accounting for the value of placemaking in bond analysis, municipal accounting, etc.

PART V:

Success In Promoting Smarter Growth Real Estate Development—Lessons from Foundations

It is possible for a foundation to contribute to smarter growth real estate development in many different ways. The number of stories and options is growing rapidly, illustrating the emergence of the smarter growth real estate investment market and the role of foundations in transforming it. There are some very easy steps, such as making grants or investing in bonds, insured deposits, and equity funds. Still, having a direct impact requires a major commitment of time and, usually, money. Based upon the stories in this guide, the following general factors have contributed most to foundation success in promoting smarter growth real estate development on the ground in a specific community.

A champion on the foundation board: In many of the stories, a single board member, not always the chairman, championed a smarter growth real estate development strategy.

Strong foundation staff to develop and implement the strategy: Successful examples include staff that assisted with fact-finding, convened local leaders, and dealt with setbacks.

Use of local knowledge and relationships: Foundations have felt well-prepared to invest where they had been making grants in the community, had strong connections in the community, and were seen as evenhanded by government and community leaders.

Care in identifying real opportunities: Projects must be grounded in political and economic realities. Many foundations have undertaken specific research to identify ripe communities and good development projects.

Help with due diligence: Many of the foundations brought in a specific expert to help with due diligence.

Willingness to commit to long-term investment: The most common lesson learned is that to change long-standing urban development principles, long-term investment is needed. These changes are not achievable through a few \$50,000 grants.

Strong local support for the project, including government support: In case after case, progress hinged on strong local, regional, and state government leadership. It is this leadership that

creates a workable regulatory environment, provides the right incentives for private developers, and fills funding gaps. And, once a foundation and local government are on board, others sense that it is worth joining the effort.

Local support that is based upon a broadly-held vision: In stories as diverse as Envision Utah to Plan Baton Rouge, visioning processes resulted in an educated public that bought into a plan for the future.

Good Timing: Conditions just need to be right. Sometimes there is a precipitating event. Sometimes a new leader appears. Sometimes there is an external opportunity. Foundations need to be aware of the changing context and ready to exploit opportunities.

Patience and Persistence: Many of the projects described in this guide took years to bear fruit. Often just project planning takes more than a year. It is in part because of the slow pace of change that a community can benefit from having an institution like a foundation with a longer horizon than an election cycle.

Willingness to use all of the foundation's skills and assets: Fact-finding leads to better choices because awareness among community leaders about the threats and opportunities facing a community can bring them to see that a longer or different view is needed.

Reaching out to local leaders with whom a foundation has a relationship contributes to more broadly supported solutions because foundations tend to know both high profile corporate and civic leaders and grassroots leaders. Convening can ensure that all voices are heard, leading to more thoughtful and robust strategies. Investments in key projects build confidence in further planning and action. Strategic grantmaking builds capacity to undertake development and pays for high-quality plans that bring everyone to the table. It helps grant recipients to build skills in planning, coalition building and mobilization, visioning, and communications/media.

While the stories in this guide are organized to focus on a single tool, most of them reflect the use of many tools, skills, and assets. In many cases, even a small amount of money can make a big difference if it is

allocated strategically along with fact-finding, convening, and leadership. It is the use of this whole array of tools that defines foundation leadership. Foundations can use their prestige to promote smart growth among elected officials, city staff, developers, residents and other stakeholders, as many of the foundations mentioned in this guide have done.

Support for new civic organizations to carry out plans: In a number of the stories, the foundation helped to create a new community institution to spur action, such as Lyndhurst Foundation's RiverCity Partners or Envision Utah.

Access to Best Practice Information: It has been worthwhile to support story sharing. The Funders' Network is becoming a repository of information about foundation activity in this area. Visit www.fundersnetwork.org for more information.

Attention to Race and Class Issues: According to consultant Dick Mark, race and class are the "silent" issues in smart growth work and the issues with the greatest potential for blocking progress in both urban and rural states. Bringing communities and classes together will take a great deal of support, training, sensitivity, and most of all, leadership.

Willingness to Accept Some Risk: Becoming involved in local policy or development projects is not without risk. Planning can be controversial. Not all developers or farmers or civic leaders may like what a foundation does. But the foundations described in this guide have prospered and grown as they did this work. Most members of the community appreciated their even-handed leadership. No donor said he or she would not make a gift because of this work.

Relying on Experts/Not Operating Buildings In House: When a foundation owns and operates real estate, it often makes sense to set-up a separate operating entity or bring-in outside property managers.

PART VI: *Getting Started*

The two questions most foundations ask are how to find good smart growth real estate investments in their region and how to convince their investment managers to seek out smarter growth real estate investments.

Planning Ahead

Before starting to look for investments, it is essential that foundations answer three more questions. The first question is *how do we define smarter growth real estate development?* This definition will determine where to look for investments and how hard it will be to find them off-the-shelf. If smart growth is only about location, there are a growing number of investment managers and some funds that target urban real estate development. If it is about urban and suburban placemaking (building communities with mixed-use, pedestrian-oriented experiences and a sense of community), it is more difficult to find funds, but increasingly easy to find projects. If it is about distributing opportunity (revitalizing low-income neighborhoods), there is a growing number of investment funds and individual investments.

The second question is *what is our goal for smarter growth real estate development?* This paper described a number of different goals, including:

- A way to achieve programmatic goals;
- An opportunity to use program-related investments (PRIs) to test markets, increase impact, and manage assets;
- A way to improve portfolio diversification and investment performance; and
- An opportunity to drive market transformation.

It may be possible to transform a market by investing in the first urban infill or conservation development project within a day's drive, but the first project in a region is risky, so it may not be a good investment choice to contribute to portfolio performance. The first project that tests a market might be better done as a PRI, which also has asset management benefits for a private foundation.

The third question is *where are we willing to invest?* It may be easier to find investments across the nation than in one region. For example, current smart growth funds only invest in certain parts of the

country. It will be more difficult to find rural conservation development investments than urban infill investments. These products are at very different stages of development. Urban infill projects have become popular in many markets. Rural conservation development projects are still proving their value to consumers and investors.

Finding Smarter Growth Real Estate Investments

The guide includes contact information for all of the foundations and investment funds mentioned. These foundations all are willing to share their experiences.

They found places to invest in insured certificates of deposit by researching local community development financial institutions and other depository institutions to find ones that were supporting mixed-income housing, conservation development, or transit-oriented development projects.

They found market-transforming projects in their regions by reaching-out to leading developers who had completed smart growth projects, city agencies staff, CDCs, and local offices of ULI and APA. And they conducted research, held meetings, and convened local leaders and developers to figure out if projects and markets were ready.

They found private placement equity and equity funds by talking to others who had invested in urban and smart growth funds, such as the major pension funds like CalPERS, a leading smart growth investor and foundations, such as California Community Foundation which invested in Genesis LA Real Estate Fund LLC or the McCune Charitable Foundation, Heron Foundation, and Jacobs Family Foundation. They also contacted fund managers for smart growth and urban funds, such as:

- Pacific Coast Capital Partners which manages the Bay Area Smart Growth Fund I, LLC, and Nehemiah Sacramento Valley Fund I, LLC (economically distressed neighborhoods in the Bay Area or Sacramento, Calif.);
- Shamrock Capital Advisers, which manages Genesis LA Real Estate Fund LLC (urban, distressed Los Angeles neighborhoods);
- American Ventures Realty Investors, which manages South Florida and New Mexico Urban Initiatives Funds (urban mixed use);

- UrbanAmerica, which manages UrbanAmerica LP (rehabbing old shopping centers throughout United States);
- CommonWealth Partners, LLC. (urban fund for CalPERS);
- CIM Group, LLC, which manages CIM California Urban Real Estate Fund for CalPERS;
- RREEF (urban fund for CalPERS);
- Cherokee Investment Partners LLC, environmental remediation projects (AIG also is working on a brownfields fund);
- Canyon-Johnson Urban Fund LP (urban development);
- Goldman Sachs Urban Investment Group (rehabilitation and adaptive reuse projects in core urban, underserved markets).

There are many more urban funds. It is likely that more funds and investment managers again have invested in one or two smarter growth real estate development projects because of their investment quality. If they were asked, many additional real estate investment firms probably could identify smarter growth real estate development projects for their clients.

At this moment, there are few opportunities to invest in smarter growth real estate development through REITs. Once REITs go public, the pressure is great to produce shorter-term returns than smart growth often can deliver. Also, most REITs focus on single uses. Both Post Properties and Federal Realty Investment Trust tried New Urbanist projects and pulled back. Most observers believe that REITs will stick to more conservative approaches for the next few years, except in taking on pieces of larger mixed-use projects. Still, while this guide does not include examples of foundation smart growth investments in REITs, there are candidates for investors to research. Madison Park REIT invests in adaptive reuse, especially urban mixed-use, live-work units. Avalon Bay Communities, an apartment REIT, invests in walkable communities as a major part of its strategy. Colonial Properties Trust and Archstone Smith also have some projects that would meet smart growth criteria.

Finally, foundations have found investment grade or equivalent bonds that support smarter growth real estate development by asking their bond managers, contracting with organizations like CRAFund Advisors, as has the Heron Foundation, or the Community Reinvestment Fund, or letting Fannie Mae, Freddie Mac, and local and state housing authorities know what they are seeking.

Convincing Investment Managers to Seek Out Smarter Growth Real Estate Investments

Convincing foundation investment managers to seek out smarter growth real estate investments requires leadership from a foundation's board and executive director. A first step can be to share this guide with the foundation's real estate investment advisor. It contains the best evidence available right now about performance and referral information to respected real estate investment firms across the nation that believe they can succeed through smarter growth real estate development. Another step is to stay in touch with the Funders' Network for Smart Growth and Livable Communities, which is maintaining a repository for all of the emerging examples of foundations supporting smarter growth real estate development.

Who to Contact: Developers, Investment Managers, and Nonprofits Mentioned in this Guide

The Funders' Network for Smart Growth and Livable Communities is one resource for contacts for smarter growth real estate development. All of the investment managers, planners, developers, and consultants mentioned in the guide are easy to find. Below there is a short list of the people mentioned in the stories and other parts of the guide.

Developers/Architects

Andres Duany, Duany Plater-Zyberk & Company, Miami Main Office, 1023 SW 25 Avenue, Miami, FL 33135, phone (305) 644-1023, andres@dpz.com.

Will Fleissig, Continuum Partners LLC, 1430 Wynkoop Street, Suite 100, Denver, CO 80202, phone (303) 573-0050, willf@continuumllc.com.

Fregonese Calthorpe Associates, 333 SW 5th Avenue, Portland, OR 97204, phone (503) 228-3054.

Chris Leinberger, Arcadia Land Company, 115 Gold Avenue, SW, Suite 205, Albuquerque, NM 87102, phone (505) 244-9339, cleinberger@arcadialand.com.

Stefanos Polyzoides, Moule & Polyzoides, 180 E. California Boulevard, Pasadena, CA 91105, phone (626) 844-2400.

Jonathan Rose, Jonathan Rose Companies LLC, 380 Madison Avenue, 22nd Floor, New York, NY 10017, phone (212) 867-0124, info@rosecompanies.com.

Investment Managers

Philip Blumberg, American Ventures Realty Investors, Alhambra International Center, Suite 1100, Coral Gables, FL 33134, phone (305) 569-9500, pblumberg@americanventures.com.

Canyon-Johnson Urban Fund LP, 9665 Wilshire Boulevard, Suite 200, Beverly Hills, CA 90212, phone (310) 247-2700.

Cherokee Investment Partners LLC, 702 Oberlin Road, Suite 150, Raleigh, NC 27605, phone (919) 743-2500, ewhite@cherokeefund.com.

CIM Group, 6922 Hollywood Boulevard, Ninth Floor, Hollywood, CA 90028, phone (323) 860-4900.

Brett Munger, Commonwealth Partners, LLC, 633 West Fifth Street, 72nd Floor, Los Angeles, CA 90071, phone (213) 629-2100.

CRAFund Advisors, Inc., 1830 Main Street, Suite 204, Weston, FL 33326, phone (877) 272-1977, www.crafund.com.

Richard Roberts, Goldman Sachs Urban Investment Group, Goldman, Sachs and Co., 85 Broad Street, New York, NY 10004, phone (212) 902-1000, (888) 902-5197, urbaninvestment@gs.com.

Adam Zoger, Pacific Coast Capital Partners, LLC, 601 Montgomery Street, Suite 1088, San Francisco, CA 94111, phone (415) 732-7644, zoger@pccpllc.com.

RREEF, 101 California Street, 26th Floor, San Francisco, CA 94111, phone (415) 781-3300.

Shamrock Capital Advisers, an affiliate of Shamrock Holdings of California, Inc. (the investment arm of the Roy E. Disney family), 4444 Lakeside Drive, Burbank, CA 91505, phone (818) 845-4444.

Richmond S. McCoy, UrbanAmerica LP, 30 Broad Street, 31st Floor, New York, NY 10004, phone (212) 612-9097, <http://www.urbanamerica.com>.

Other Organizations

American Planning Association (www.planning.org)

Center for Neighborhood Technology (www.cnt.org)

Center for the New Urbanism (www.cnu.org)

Center for Transit-Oriented Development (CTOD) (www.reconnectingamerica.org)

Funders' Network for Smart Growth and Livable Communities (www.fundersnetwork.org)

Smart Growth America (www.smartgrowthamerica.org)

Smart Growth Network (www.smartgrowth.org)—supported by the U.S. Environmental Protection Agency

Urban Land Institute (www.uli.org)

PART VII: *Glossary of Terms*

AAA Rating: The highest credit rating for a municipality.

Affordable housing: Safe and sanitary shelter whose monthly rent or mortgage payment, including taxes, insurance, and utilities, does not exceed 30 percent of a household's gross annual income.

Brownfield: An industrial or commercial parcel that is abandoned or underused and often environmentally contaminated, especially one considered as a potential site for redevelopment.

Charrette: An intensive process involving a series of collaborative design and public input cycles for multiple, consecutive days. A central element of the charrette is the "design team," a multidisciplinary group of professionals that provide the necessary expertise to create a feasible plan that considers all relevant input.

Class A (office buildings): Class A space can be characterized as buildings that have excellent location and access, attract high-quality tenants, and are managed professionally.

Cluster Development: Approach that generally sites houses on smaller parcels of land, while the additional land that would have been allocated to individual lots is converted to common shared open space for residents in the development (may also be termed open space development, conservation development, hamlet style, or farm village).

Conservation Development: Characterized by common open space with clustered lots—these developments work to balance residential development with agricultural needs, open space, and natural resources while retaining a unique sense of place.

Conservation Easement Program: A conservation easement is a legal document which is filed in the land records with the property deed, restricting farm property to agricultural and directly related uses. The purpose of this type of program is to protect viable agricultural land by acquiring agricultural conservation easements, which prevent the development or improvement of land for any purpose other than agricultural production, and allow related agricultural activities.

Density: The average number of people, housing units, or structures per unit of land.

Gentrification: The impact of steadily rising housing prices as a result of neighborhood improvements, which can result in displacement of lower-income households.

Greenbelt: A ring of connected parks, farmland, and/or uncultivated land surrounding a community.

Greenfield: Undeveloped property, sometimes in agricultural use, that can be used for suburban development on the edges of or outside of existing urban areas.

Greyfield: An obsolete or abandoned retail or commercial site, usually a shopping mall.

HOME Dollars: The federal HOME program is targeted to low-income people and its funds can be used by local jurisdictions for a range of eligible housing activities.

Indicators: A series of easily measured community attributes—such as school dropout rates, air quality, acres of urbanized land, and health insurance coverage—that are used to identify and monitor progress on various aspects of the health of a community.

Infill: The use of vacant land and property within a built-up area for new construction or redevelopment.

Livability: Quality of an area as perceived by residents, employers, and visitors, including safety and health, environmental conditions, quality of social interactions, opportunities for recreation and entertainment, aesthetics, and existence of cultural and environmental resources.

Mezzanine investment financing: (Also referred to as third-stage capital.) Refers to a later stage investment provided to a company that is already producing and selling a product or service, for the purpose of helping the company achieve a critical objective that, in many cases, will enable it to go public. Mezzanine investment financing provides for major expansion in companies whose sales are increasing, and whose cash flow is break-even or slightly positive.

Mixed-use: Multiple land uses, such as residential, retail, and office, combined in a structure, on a single parcel of land, or built adjacent to one another on multiple parcels.

New Economy: Term conveying the shift from the industrial order of the past to a more complex, dynamic and dispersed economy shaped by information technologies, global markets and new communications networks like the Internet.

New Urbanism: International movement to restore existing urban centers and towns, reconfigure sprawling suburbs into communities of real neighborhoods and diverse districts, conserve natural environments, preserve historic structures, and create compact new towns and villages.

Open space: Undeveloped land or land that is used for recreation, including farmland and natural habitats (e.g., forests, fields, wetlands).

Regional and neighborhood equity: A learning and action framework designed to: a) reduce social and economic disparities among individuals, social groups, neighborhoods, and local jurisdictions within a metropolitan area; b) connect neighborhoods to regional and state public policy decision-making; and c) harness private markets opportunities for community benefits.

Remediation: In environmental protection work, the act or process of correcting a fault or deficiency.

Smart growth: A series of policies and practices that result in well-planned development that protects open space and farmland, revitalizes communities, keeps housing affordable, and provides transportation choices.

Sprawl: The unplanned spread of urban development into areas beyond the edges of a city. Sprawl defines patterns of urban growth that include large acreage of low-density residential development, rigid separation between residential and commercial uses, development in rural areas away from urban centers, strip commercial development along highways, and minimal support for non-motorized or alternative transportation.

Sustainable development: Development with the goal of preserving environmental quality, natural resources and livability for present and future generations. Sustainable initiatives work to ensure efficient use of resources.

Transect: A comprehensive design theory that organizes the full continuum of human environments, from remote wilderness to dense downtowns that now guides the planning and design of many new villages, towns and cities, and is the framework for development codes now being adopted by counties in several states. The Transect is a concept drawn from ecology. It is a geographical cross section through a sequence of contiguous environments—for example, from wetland to upland, or tundra to foothill. The Transect can be extended from the natural environments into to the human habitat by introducing settlements of gradually increasing density (for example, zoning according to form instead of use).

Transfer of Development Rights (TDRs): A system that gives owners of undeveloped parcels in non-urbanized areas—usually working farmland or ranchland—the option of transferring their development rights to urban lands in exchange for financial payments. In return, the property owners accept deed restrictions protecting their land from development in perpetuity. When these rights are purchased, not transferred, these programs are known as PDRs.

Transit-Oriented Development (TOD): Refers to residential and commercial areas designed to maximize access by transit and non-motorized transportation and with other features to encourage transit ridership. A TOD neighborhood has a center with a rail or bus station, surrounded by relatively high-density development, with progressively lower-density development spreading outwards.

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Cover Photos, clockwise from top left:

- 1) *The Jackson Building in Baton Rouge, La.—a restored historic building rescued after it was slated for demolition (Source: Plan Baton Rouge).*
- 2) *The True Reformer Building in the historic Shaw neighborhood of Washington, D.C.—home to the Public Welfare Foundation—office and community meeting space (Source: Public Welfare Foundation and 202design).*
- 3) *Rendering of the design for the —Coward Place—neighborhood in downtown Chattanooga, Tenn. (Source: Lyndhurst Foundation).*
- 4) *The Century Theatre Block in Albuquerque, N.M., —buys—the 50,000 square foot, 14-screen big box theater behind seven individually designed retail/office buildings that surround the theater, except for the two story entrance on a full two-acre city block that was formerly a surface parking lot (Source: Arcadia Land Company and the HDIC).*
- 5) *One of Chattanooga, Tenn.—s famous electric shuttle buses, manufactured locally (Source: Lyndhurst Foundation).*



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