

# SECTION III: EXAMPLES OF BUSINESS-CIVIC ORGANIZATIONS AT WORK

## INVESTING IN A SOLUTION TO THE AFFORDABLE HOUSING SHORTAGE

A SHORTAGE OF AFFORDABLE HOUSING IS ONE OF THE SAN FRANCISCO BAY AREA'S MOST PRESSING PROBLEMS. IN RESPONSE, THE BAY AREA COUNCIL'S SMART GROWTH FUND IN NOVEMBER 2003 INVESTED \$2.7 MILLION TO BUY AND REHABILITATE LOW- AND MODERATE-INCOME HOUSEHOLDS.

THE INVESTMENT IN ASCEND HOUSING, WHICH SELLS 75 PERCENT OF ITS HOMES TO LOW-INCOME RESIDENTS, AIMS TO REHABILITATE 190 SINGLE-FAMILY HOMES IN ALAMEDA AND CONTRA COSTA COUNTIES OVER FIVE YEARS.

THE MONEY WILL HELP THE NEW HOMEOWNERS IMPROVE THEIR NEIGHBORHOODS AND WILL TARGET HOUSES THAT CAN BE RESOLD AT PRICES LOW ENOUGH NOT TO DISPLACE CURRENT RESIDENTS, ACCORDING TO ELIZABETH Y.A. FERGUSON, MANAGING DIRECTOR OF THE BAY AREA FAMILY OF FUNDS.

SINCE 1999, ASCEND HOUSING HAS SOLD MORE THAN 100 HOMES, MOSTLY TO LOW-INCOME RESIDENTS AMONG WHOM DEMAND IS OFTEN UNMET IN THE TIGHT BAY AREA MARKET. ASCEND'S HOUSES HELP ADDRESS THE REGION'S SCARCITY OF AFFORDABLE HOUSING.

## The Bay Area Council, Northern California:

Using investment funds to revitalize low-income neighborhoods

A recent analysis of the San Francisco Bay Area's competitive advantage by the business consultant McKinsey and Company identified the region's growing rate of poverty as one of the top five challenges to its long-term prosperity.

In an effort to address this pressing problem and simultaneously promote a smart growth orientation to development in the nine-county region, the Bay Area Council has raised significant private capital from member companies to launch The Bay Area Smart Growth Fund and the Bay Area Equity Fund.

Fund investments are focused in 46 Bay Area neighborhoods that missed out on Northern California's wealth explosion of the 1990s. The neighborhoods offer large markets and a large potential workforce but are plagued by concentrated, persistent, and often deepening poverty. The funds require "double bottom line returns" – market returns to investors and social and environmental benefits for local residents.

Both funds are sponsored by the Bay Area Council, a business-led policy group that represents more than 275 employers in the nine-county Bay Area. Nearly all of the funds' investors are members of the Bay Area Council. Investors include banks, foundations, insurance companies, pension funds, and individuals. Each fund is managed by a professional investment company which makes all investment decisions. The funds are part of the Community Capital Investment Initiative (CCII), a regional investment strategy that

includes the Community Council as a part of its operating structure. The Community Council represents approximately 30 Bay Area community organizations. Its role is to help identify potential deals, negotiate local politics, and ensure that CCII investments benefit the community by enhancing the second bottom line, social and environmental returns.

Elizabeth Y.A. Ferguson, Bay Area Council Executive Vice President and Managing Director of the Bay Area Family of Funds, said investing through the funds helps residents by providing jobs and infrastructure improvements, not just one-time assistance. "Relying on market forces makes investing in the neighborhoods sustainable," Ferguson says. "You can't rely on grants indefinitely."<sup>1</sup>

**Websites:** Bay Area Council: [www.bayareacouncil.org](http://www.bayareacouncil.org) | Bay Area Smart Growth Fund: [www.basgf.com](http://www.basgf.com)

## INVESTMENT AT WORK IN A LOW-INCOME COMMUNITY

ONE EXAMPLE OF THE BAY AREA SMART GROWTH FUND'S INVESTMENTS IS THE GATEWAY RETAIL CENTER IN MARIN CITY, CALIFORNIA, A SHOPPING CENTER IN A COMMUNITY WITH MANY LOW-INCOME RESIDENTS.

THE GATEWAY CENTER, WITH 182,054 SQUARE FEET OF RETAIL SPACE, IS HOME TO BEST BUY, ROSS DRESS FOR LESS, LINENS 'N THINGS, AND LONGS DRUGS STORE. THE BAY AREA SMART GROWTH FUND IS INVESTING \$7.1 MILLION IN AN EQUAL PARTNERSHIP WITH THE NOT-FOR-PROFIT MARIN CITY COMMUNITY LAND CORPORATION (MCCLC).

THE PARTNERS BOUGHT THE RETAIL CENTER IN AUGUST 2003 FROM THE SAN DIEGO REAL ESTATE COMPANY BURNHAM PACIFIC PROPERTIES INC., WHICH WAS BEING LIQUIDATED. THE INVESTMENT SATISFIES THE SMART GROWTH FUND'S COMMITMENT TO "DOUBLE BOTTOM LINE RETURNS" BY SEEKING A MARKET-RATE RETURN WHILE FOCUSING ON BENEFITS FOR LOCAL RESIDENTS. REVENUES FROM THE PROPERTY WILL BE DIRECTED THROUGH THE MARIN CITY COMMUNITY LAND CORPORATION BACK TO THE COMMUNITY IN THE FORM OF BENEFITS AND SERVICES.

REFINANCING ON THE PROJECT IS EXPECTED IN 2008. AT THAT TIME, ACCORDING TO PLANS, THE MCCLC WILL BECOME FULL OWNER AND THE BAY AREA SMART GROWTH FUND WILL EXIT AFTER HAVING MET ITS GOALS FOR FINANCIAL RETURNS.

*"Relying on market forces makes investing in the neighborhoods sustainable. You can't rely on grants indefinitely."*

— ELIZABETH Y.A. FERGUSON,  
Bay Area Council Executive Vice  
President and Managing Director, Bay  
Area Family of Funds

The Bay Area Smart Growth Fund invests in mixed-use, mixed-income real estate. The fund is capitalized at \$65.8 million dollars and is managed by Pacific Coast Capital Partners. The fund had its final close in 2003 and has since invested successfully in seven projects totaling \$33.4 million. The Community Council recently evaluated the Bay Area Smart Growth Fund's social and environmental returns in its first annual review, rating the fund's contributions as positive and in accordance with its stated objectives.

The Bay Area Equity Fund invests in businesses capable of generating jobs and wealth in priority neighborhoods. It targets the technology, health care and consumer product sectors and will have a final close of approximately \$75 million in 2004. It is currently capitalized at \$61 million.

The Bay Area Equity Fund is managed by JPMorgan H&Q. It is co-sponsored by the Bay Area Council and the Alliance for Community Development (Alliance), which includes members of community-based development and finance organizations. The Alliance serves as a link to the community, ensuring that local residents are hired and new businesses locate near transit stops.

Glenn Yee, Executive Vice President of the Los Angeles-based Far East National Bank, which has offices in the Bay Area, said the Bay Area Smart Growth Fund and the Bay Area Equity Fund create wealth in the community, which in the long run is good for his bank's business. Far East National Bank, which has \$1.8 billion in assets, has invested \$1 million in the Bay Area Equity Fund and \$2 million in the Bay Area Smart Growth Fund.

"We feel it's important to do something for the betterment of the community in which we work," Yee says. "This is not a giveaway. This has to give some reasonable market return."<sup>2</sup> The investments also help the bank satisfy reinvestment criteria imposed by the Federal Deposit Insurance Corporation.

The Smart Growth Fund and Equity Fund are two of the three funds known as the Bay Area Family of Funds. The third, the California Environmental Redevelopment Fund (CERF), invests in the clean-up of environmentally contaminated sites. In all, the three funds have raised more than \$160 million.