

Housing and Economic Development Working Group

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## Case Study:

### Responsible Property Investment Olmsted Green: A Public-Private Partnership

#### Introduction

The residential community of Olmsted Green is an example of a public-private partnership that leverages institutional investors' dollars to provide concrete economic development benefits for the local community. The transformation of the former Boston State Hospital site into Olmsted Green took 20 years and was only made possible by the partnership between the New Boston Fund's Urban Strategy America (USA) Fund and the Lena Park Community Development Corporation, known as Lena New Boston, in cooperation with the City of Boston and the Commonwealth of Massachusetts. Without the investment and development experience of the fund manager, the local knowledge of the community partner, and public subsidy and gap financing, the project would not have happened. The outstanding opportunities to develop urban core areas warrant the pursuit and identification of the key factors that are necessary to make future public-private partnerships work.

#### Background: The USA Fund and Olmsted Green

The USA Fund manages approximately \$190 million in equity from institutional investors and executes on the promise of a triple bottom line – generating solid returns to investors, spurring economic development including workforce housing, and promoting environmental sustainability. In addition to its real estate investment expertise gained through the management of six prior funds, the fund brings development expertise via the New Boston Development group. The USA Fund typically partners with for-profit JV Partners and community development corporations (CDCs) or other non-profit organizations to undertake its projects. Local partners receive a part of the developer's fee and a share of project cash flow after a threshold return is realized. The USA Fund also provides technical assistance and brokers relationships to strengthen the capacity of its local development partners.

Olmsted Green is the first project in Boston to use the state's 40R "smart growth" statute promoting additional density and transit-oriented development. The project broke ground in May 2006 and will be built in four phases over four years, developing 42 acres in the heart of Boston. Olmsted Green will include 287 workforce housing condominiums and 153 affordable rental units. The project will also create 400 permanent jobs and 400 jobs in construction. The design is sustainable, with energy-efficient appliances and walking trails and bike paths on site. In addition, Lena New Boston will develop 83 units of senior housing, a 123-bed skilled nursing care facility, a mental health center, a job training center, a fitness facility, and a CDC community center.

#### Value and Challenges

##### *Fund Managers*

It is estimated that only 1% of domestic private equity is targeted toward real estate investment and development in urban core areas, while population growth in the 25 largest U.S. cities is expected to grow by an estimated 75% during the next 10 years. This represents a significant opportunity and a need to develop these urban centers. Fund managers that pursue double- and triple-bottom-line strategies intervene between the investor and community by creating deals of sufficient scale to produce risk-adjusted financial returns, and transform the community and promote green development. The USA Fund seeks to provide solid returns to investors (in the range of 12.5 percent to 15 percent annual return over the life of the fund) while stimulating economic development through the creation of housing, jobs, and local amenities.

The USA Fund works to manage risk by creating a diversified portfolio in core, developmental, and value-added investments, including residential, warehouse, office, retail, and other properties. It maintains a multiregional presence, and deal flow in the Southeast, Northeast, and Mid-Atlantic is generated by CDCs, joint venture partnerships, and public-private partnerships. The USA Fund has mapped out 12 measures of success for partnerships that include direct benefits to the community, such as the creation of housing, and efforts to empower local developers and stimulate third-party economic development.

### *Community Partners and Government*

Olmsted Green is a good example of how community partners and the public sector interact with fund managers to provide competitive financial returns to institutional investors while delivering tangible benefits to the local development area. Lena Park initiated the economic development opportunity by selecting the USA Fund as a partner and identifying the goods, services, and amenities that the community needed. Both partners work together to achieve benefits beyond housing and job creation. The USA Fund works with local brokers to reach targeted home buyers and tenants – and with property management firms and the general contractor to influence these vendors' hiring and purchasing decisions. Lena Park operates construction and property management training programs that prepare neighborhood residents to fill local hiring goals.

The public sector supports investments like Olmsted Green through such instruments as land use regulation, low-land basis incentives, loans, loan guarantees, and tax credits. Support for the use of these tools is vital for the growth of institutional investment in economic development. To date, public pension funds around the country have committed \$11 billion to economic development investments, and the number is growing.<sup>1</sup> Lessons learned from early adopters among institutional investors demonstrate that these investments yield both high financial and social returns.<sup>2</sup>

### *Investors*

Investors in the USA Fund include national banks, foundations, insurance companies, and public pension funds, such as the Teachers Insurance and Annuity Association, College Retirement Equities Fund (TIAA-CREF). TIAA-CREF's Global Social and Community Investments Group focuses on social and community investments that seek to align investments with participants' core values, of which the top concerns are the environment, human rights, and community impact. Formed in 2006, the group is responsible for screening the \$9.5 billion Social Choice Equity Fund, assisting with corporate governance across multiple portfolios, and investing in various socially responsible investment programs including

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<sup>1</sup> Hagerman, Lisa, Gordon Clark, and Tessa Hebb. 2007. *Investment Intermediaries in Economic Development: Linking Pension Funds to Urban Revitalization*. Labor and Worklife Program at Harvard Law School. Cambridge, MA.

<sup>2</sup> Hagerman, Lisa, Gordon Clark, and Tessa Hebb. 2005. *Pension Funds and Urban Revitalization: Competitive Returns and a Revitalized New York*. Oxford University Centre for Environment, WP 05-13. Oxford, U.K.

microfinance, banking, and real estate investments. Of these programs, the Corporate Social Real Estate Investment Program is by far the largest, with committed investments across a wide range of debt and private equity investments. This portfolio, historically focused on investments in affordable housing via Low Income Housing Tax Credits and hybrid debt investments, today targets triple-bottom-line investments that address issues of urban redevelopment, workforce housing, and green/sustainable development, such as the USA Fund.

TIAA-CREF leverages its national investment platform in seeking seasoned fund managers capable of sourcing real estate investments across multiple domestic markets. Specifically, the portfolio looks for investments that can provide COIN or LICONY credits, New Markets Tax Credits, and workforce housing investments that qualify for Community Reinvestment Act credit.<sup>3</sup> Additionally, TIAA-CREF seeks funds that leverage public-private partnerships that promote transit-oriented developments, affordable housing, and green or sustainable developments. TIAA-CREF's social investment programs strive to embody the values of its clients, as well as help fulfill its mission of producing accumulative market returns for its investors.

### Conclusion

Olmsted Green required the public-private partnership of Lena New Boston, the City, and State to get off the ground. These partners worked together to craft a development that will stimulate economic growth in the local area. In order for fund managers such as the USA Fund to leverage the private investment of investors such as TIAA-CREF they must provide risk-adjusted rates of return on investments. However, the kinds of subsidies that make such projects possible are in danger of being eliminated. Federal New Markets Tax Credits, Historic Tax Credits, and Low Income Housing Tax Credits are in short supply. Transit-oriented development moneys and HUD Hope 6 affordable homeownership dollars are also under threat of disappearing. There is more than \$4 billion of double- and triple-bottom-line real estate funds in existence or being developed. This represents a significant opportunity for private equity to partner with publicly funded programs, if they are available. These economic development tools can help foster future public-private partnerships like Olmsted Green that will stimulate additional growth in America's cities.

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<sup>3</sup> COIN (the California Organized Investment Network) was established in 1996 at the request of the California insurance industry as an alternative to state legislation that would have required insurance companies to invest in underserved communities in the way that the federal Community Reinvestment Act applies to the banking industry. Similarly, LICONY (the Life Insurance Council of New York, Inc.) provides resources to New York insurance companies to encourage their voluntary participation in community investing.