Financing Creative Places

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An Early Believer

Following the passage of the Community Reinvestment Act (CRA), early community development efforts set out to rebuild decaying and abandoned neighborhoods with a laser focus on the built environment.[1] Making the case for private investors meant proving that urban decline could be stemmed and reversed, building by building, block by block.

I came of age as a city planner during this era, in the mid-1970s, having completed graduate school and finding myself at the helm of a nascent community development corporation (CDC) in Williamsburg, Brooklyn. Like other self-help efforts throughout the United States, our organization was stewarded by local residents and business owners who had little faith in government coming to their rescue. Instead, they sought a path that would re-engage the private sector in investing in the future of their community.

After 15 years as the executive director of the St. Nicholas Neighborhood Preservation Corporation, we had a great deal to show for this approach, with buildings redeveloped, new businesses opened, jobs created, and pride restored. From that grassroots perspective, I came to appreciate the very important intangibles that make a successful and vibrant community. Along the way, we enlisted unlikely partners, including the National Endowment for the Arts and the New York State Council on the Arts, whose support enabled us to design a new streetscape for a deteriorated shopping district, prototype the redesign of abandoned factories into affordable housing, and celebrate the lost history of the neighborhood's origins.[2]

From a Banker's Perspective

Having the opportunity to lead Deutsche Bank's Global Social Finance Group and Americas Foundation has been a unique platform to advance these lessons to those working to bring commercial capital into communities. Deutsche Bank operates as a wholesale bank, without a branch system or conventional retail products or services, so our strategy has required a more expansive perspective for how to invest capital into low- and moderate-income communities.

1 Passed by Congress in 1977, the Community Reinvestment Act (CRA) is designed to encourage commercial banks and savings associations to help meet the credit needs of borrowers in all segments of the communities in which they are chartered, including low- and moderate-income neighborhoods. The act intends to reduce discriminatory credit practices against low-income neighborhoods, a practice known as redlining. To enforce the statute, federal regulatory agencies examine banking institutions for CRA compliance.

2 Karen Hudes, "The Vanishing Icons of Metropolitan Avenue: A History of Williamsburg's Handmade Shop Signs from the 1980s," (Brooklyn, NY: Art Exhibit, October 24, 2010), http://wp.me/16Gu7.

Although we have been mainstay providers of debt and investment for affordable housing and economic development, we have also sought to recognize the value of the cultural sector in strengthening communities. In particular, we have recognized cultural institutions for the multiple roles they can play as engines of economic development, agents of community reconciliation, educators of disadvantaged youth, stimulators of new creative talent and leadership, and a source of pride and community equity on the larger political stage. The Arts and Enterprise program, a Deutsche Bank Americas Foundation signature program, has devoted a stream of philanthropic resources to this approach by deploying more than $10 million over the past 12 years to cultural institutions primarily in New York City. As anchor institutions in transitional neighborhoods, we have come to appreciate the enormous value cultural institutions can bring to communities struggling to regain their footing and define a path forward.

For instance, the Queens Museum of Art took advantage of these funds to hire a community organizer, a very unusual move for a cultural institution. The museum used other funds to establish "Leadership through the Arts," a program for immigrant young adults who graduated from the public school system but are not likely to attend college. The program equipped youth with the skills and tools needed to navigate the civic and educational power structures in their communities. Participants examined the tension points in their neighborhoods and interacted with community and political leaders, seniors, local businesses, and entrepreneurs to advance solutions to their most pressing problems. Efforts have focused on predatory lending practices, with a focus on preventing non-English speakers from becoming victims of predatory practices and to work themselves out of crises if they had already been ensnared.

Beyond our support for cultural organizations, some of the most promising creative placemaking efforts in New York City have involved traditional CDCs working in partnership with arts groups to incorporate new cultural venues into mixed-use affordable housing developments. These efforts are notable for a variety of reasons. First, they are being driven, like my work at St. Nicholas Neighborhood Preservation Corporation, by organizations with housing and real estate development at their core, but which view arts and culture as fundamental parts of their community revitalization missions. Second, the CDCs have deep expertise in initiating and sustaining complex capital projects that blend a range of sources, including federal Low Income Housing Tax Credits (LIHTC), city and state subsidies, private debt, and various types of grants, including philanthropy. These projects are located in neighborhoods such as East Harlem, the South Bronx, and Sugar Hill in Harlem where demand for affordable housing is urgent. The higher densities in these communities also provide for ground floor commercial space that can be leveraged to deliver community development benefits that may not be tied to optimizing retail rents through traditional commercial tenants. The CDCs driving these projects are using their hyper-local civic capital–their relationships, their connections to the arts community, and their knowledge of the local real estate and commercial markets–to design financially sustainable projects that will appeal to both the local community and to the city at large.

Deutsche Bank has supported these initiatives–spearheaded by Broadway Housing Communities (BHC), WHEDCo, and El Barrio's Operation Fightback with Artspace–through two signature housing programs that provide predevelopment grants and soft loans (in the form of program-related investments) to assist CDCs moving complex capital projects from concept to implementation.[3] These very competitive programs prioritize applicants who can demonstrate innovative practices in community development–such as incorporating arts and culture uses–as well as those that appear most likely to move toward financial closing and implementation within a three- to six-year period.

Deutsche Bank supported BHC's Sugar Hill development with a three-year award starting in 2007. Located on West 155th Street in Harlem and in the final stages of construction as of this writing, Sugar Hill features a unique design by renowned architect David Adjaye, providing 124 affordable apartments, an early childhood center, and an innovative new cultural institution, the Sugar Hill Children's Museum of Art and Storytelling. The project was financed by a blend of LIHTCs, New Markets Tax Credits, bank debt, federal HOME Invest Partnerships Program funds allocated by the City of New York, New York City Council funds, and various philanthropic grants.[4] Occupying more than 17,000 square feet of flexible space, the museum will draw on the rich history of oral traditions in the African-American and Latino communities, and will showcase storytelling and artwork inspired by Harlem. BHC's Executive Director, Ellen Baxter, says, "At Sugar Hill we leveraged more than 30 years of experience in Upper Manhattan to create a new concept for community development where more than 70 percent of children are born into poverty. These youngest citizens are the community's most valuable assets, and this intergenerational cultural investment strategy will highlight equal cultural and educational opportunity. The early education center

3 Deutsche Bank's key housing programs are the Working Capital Program (WCP) and DB Supportive Housing Acquisition and Rehabilitation Efforts (DB SHARE). WCP funds early stage, predevelopment activities by community-based organizations that are starting housing, commercial or community facility developments. DB SHARE supports developers of new permanent housing for homeless New Yorkers with special needs. Through both, Deutsche Bank has provided 122 awards to community development corporations since 1994, and counts among them Broadway Housing Communities, WHEDCo, and El Barrio's Operation Fightback. Broadway Housing Communities is a New York City nonprofit housing developer committed to providing innovative permanent housing for individuals and families in the greatest need; it provides nearly 300 units of supportive housing in the communities of Washington Heights and West Harlem. WHEDCo takes a holistic approach to economic development; it has built hundreds of high-quality, sustainable, and affordable homes surrounded by services too often out of reach for Bronx families–from help starting micro-enterprises and building rooftop farms that grow healthy food, to access to high-quality, afterschool and early education programs, arts and cultural events, to safe, livable streets. El Barrio's Operation Fightback is devoted to planning and implementing projects and programs that will bring more affordable housing and tenant services to East Harlem. Program-related investments (PRIs) are investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. PRIs include financing methods commonly associated with banks or other private investors, such as loans, loan guarantees, linked deposits, and equity investments in charitable organizations or in commercial ventures for charitable purposes.

4 The Low Income Housing Tax Credit and New Markets Tax Credit programs were designed to provide the private markets with incentives to invest in affordable rental housing and to spur revitalization efforts of low- income, distressed communities across the United States. The Federal Home Investment Partnerships Program is the largest federal block grant to state and local governments and funds a wide range of activities, including building, buying, and rehabilitating affordable rental housing.

and the museum together will benefit thousands more children and families than the residential component, yet affordable housing is the foundation that made it all possible. The model integrates housing, early education and cultural development to achieve a far broader community impact, and enhances sustainability."[5]

In the South Bronx, Deutsche Bank provided WHEDCo with a three-year award starting in 2012 in support of the Bronx Commons development, a partnership with Blue Sea Development Company, a firm that has been on the leading edge of the "green" building industry for decades. The project is expected to break ground this year and open in 2017. Bronx Commons will feature the Bronx Music Heritage Center (BMHC), a cultural heritage and music education center celebrating the influential musical forms with strong roots in the Bronx, including jazz, Latin music, and hip hop. "Bronx Commons is about two things: the Bronx–through the Bronx Music Heritage Center–and the Commons, which we interpret as creating housing with indoor and outdoor public spaces that stimulate commerce and encourage pedestrian traffic. Bronx Commons shines a light on the borough's displaced music heritage and builds it back as fertile soil for the growth of new art forms in the new economy," says Nancy Biberman, WHEDCo's founder and president.[6]

WHEDCo has already begun building an audience and constituency for this institution through a series of music, film, spoken word performances, and artist residencies at the BMHC Lab, a pop-up storefront space in the already-built Intervale Green development in Crotona East. The Bronx Commons development anticipates combining financing from tax-exempt bonds, LIHTCs made available by both New York City and New York State, grants from New York City Council funds and the Bronx borough president, Enterprise Community Partners, the New York State Research and Development Authority, and philanthropic sources.

Deutsche Bank's support of El Barrio's Artspace PS109 development, in partnership with El Barrio's Operation Fightback, suggests a possible way that financial institutions could engage with this new model of CDC-driven arts institutions. Deutsche Bank initially supported this revitalization of a long-vacant public school through $225,000 in philanthropic resources in 2006, and followed that initial investment with $7 million in equity through a LIHTC fund syndicated by financial services firm Raymond James. This alignment of philanthropic support and CRA-motivated bank capital (either loans or investments) suggests a particularly effective model for other financial institutions to follow. Shawn McLearen, vice president of property development with Artspace, remarks, "As a nonprofit real estate developer for the arts, Artspace needs financial institutions like Deutsche Bank as partners, as they not only support our complex financing models, but also understand them well enough to be trusted advisors throughout our predevelopment, construction administration, and operational periods. Banks are best positioned to provide strong private sector financing tools that

5 Email correspondence. Ellen Baxter and Gary Hattem. October 14, 2014.
6 Email correspondence. Nancy Biberman and Gary Hattem. October 17, 2014.

can allow groups like ours to attract scarce and highly competitive public sector resources. We're honored that Deutsche Bank has been a partner precisely when community-driven real estate is needed most."[7]

The development will open this year, having created 90 units of permanently affordable live-work housing for artists and their families, with at least 50 percent of the units reserved for current residents of East Harlem. The project developers are currently selecting East Harlem cultural partners for the ground floor commercial spaces.

Building a Field of Practice

ArtPlace America began with a pioneering group of foundation executives supported by the National Endowment for the Arts. The initiative galvanized resources to build a national practice of creative placemaking. Although funded by philanthropies, the premise of ArtPlace America is to be catalytic in enabling places to succeed socially, culturally, and economically. The goal to build social and economic equity into cultural initiatives is unique to ArtPlace America, a rare topic of conversation among art funders. This aspiration included the belief that conventional commercial capital providers should be at the table in the making of ArtPlace America and in developing its strategy.

Fortunately, one of the unique attributes of the community development sector is collegiality. That helps foster collaboration among financial services firms to develop new ideas, share risks, and to build out a marketplace. I had the opportunity to enlist this good will–and capital–of Citi, JPMorgan Chase, Morgan Stanley, Bank of America, and MetLife to partner with ArtPlace America. Each of these six institutions committed $2 million in financing to the ArtPlace America initiative. Relying on the financial architecture of traditional community development, we enlisted Nonprofit Finance Fund (NFF) to provide financial intermediation.[8] Our philanthropic partners also prudently recognized the perceived early-stage risk of this type lending and stepped up with dedicated capital to provide further loan loss reserves, enabling NFF to go beyond their traditional underwriting standards to allow for more nascent projects to access our debt.

With this financing structure in place to deploy capital, we had hoped for a diversity of projects to align the sectors of community development and creative placemaking. Although projects surfaced initially, they quickly faded, and the credit facility expired without being deployed. According to Jeremy Nowak, who served as a consultant to ArtPlace America, "The original structure of the loan program was problematic for a variety of reasons: no financial incentives to make loans; some incentive to use the credit enhancement capital

7 Email correspondence. Shawn McLearen and Gary Hattem. October 15, 2014.

8 The Nonprofit Finance Fund unlocks the potential of mission-driven organizations through tailored investments, strategic advice and accessible insights. Founded in 1980, NFF helps organizations connect money to mission effectively, and supports innovations such as growth capital campaigns, cross-sector economic recovery initiatives and impact investing. A leading Community Development Financial Institution (CDFI), NFF has provided more than $287 million in loans and access to additional financing via grants, tax credits, and capital in support of more than $1.4 billion in projects for thousands of organizations nationwide.

for purposes other than lending; a grantor-led process without the flexibility to respond to market demand; no singular party responsible for the loan program's success; a lack of clarity regarding our loan products and the kinds of projects that fit the creative place-making mission; the national character of ArtPlace America versus the localized knowledge of NFF (with respect to a half-dozen areas)."[9]

Although the history of community development has more than a few examples of funds organized and not deployed, our experience has offered important lessons as to what needs to come next to build a field of creative placemaking that can regularly tap into the capital markets that have been built for community development.

A Path Forward

Capital-intensive projects in the traditional community development arena, or in the emerging field of creative placemaking, are labor intensive and time consuming when compared with traditional real estate transactions. Organizing the political will, gaining community support, and assembling often layered financing can easily take three- to five-years to complete.

Intentionally directing a flow of commercial capital for creative placemaking will require a sustained commitment to fostering a network of resources that allow for a capital-ready environment. As such, we are encouraged by the next iteration of ArtPlace America grants that will select sites for longer-term funding commitments. This commitment will allow for a local ecosystem of private capital to be aligned with these philanthropic resources. Importantly, this longer-term perspective to local field-building should provide local cultural actors who have proven to be "debt phobic" the opportunity to be socialized to the idea of more complex capital structures beyond business models that rely entirely on grants.

I envision in these locations the potential to marry traditional CDCs with local cultural organizations similar to the successful partnerships that Deutsche Bank has helped to support in New York City. Ideally, these locations would identify a local Community Development Financial Institution (CDFI) that could further help with capital intermediation to institutionalize the capacity to manage a continual deal flow.

Most promising of all is the spirit of ArtPlace America as a social enterprise that seeks to advance creative placemaking as measureable, leveraged, and sustainable. The foundation executives who pioneered ArtPlace America are a rare group of seasoned community development funders and proponents, in addition to being cultural leaders. They were quick to arrive at the role they could play in facilitating private-sector engagement in creative placemaking. The goal we all share is to normalize this work so that all local communities that undertake the hard work of community development consider and deploy it as they create lasting opportunities for low- and moderate-income communities.

9 Email correspondence. Jeremy Nowak and Gary Hattem. October 6, 2014.

Gary Hattem is managing director at Deutsche Bank and heads the global social finance group as well as its foundation. Responsible for the firm's lending, investment and philanthropy, he oversees corporate citizenship activities for the Americas. Mr. Hattem established the Community Development Finance Group in 1990 and is recognized as an innovative leader in the field of private sector investment in distressed communities. Over the past two decades he has overseen over $2 billion in financing for projects which benefit low-income communities in the Americas and throughout the developing world. Mr. Hattem holds many leadership positions in philanthropy and community reinvestment. He is a trustee of Pratt Institute, chairman of the Carbon Initiative for Community Impact, director of the New York City Energy Efficiency Corporation, and a member of the Haiti Presidential Advisory Council on Economic Growth and Investment. Mr. Hattem holds a MA in city and regional planning from Pratt Institute and a BS from Purchase College. In 2009 he was selected as an American Council on Germany McCloy Environmental Fellow.