# Economic Development with Equity:

# Case Study of Market Creek Plaza Community Development IPO in San Diego, CA

by

Marta Leah Nelson

A Masters Project submitted to the faculty
of the University of North Carolina at Chapel Hill
in partial fulfillment of the requirements
for the degree of Master of Regional Planning
in the Department of City and Regional Planning.

Chapel Hill

2009

Approved by:

READER (optional)

ADVISOR

# Copyright Page

## ABSTRACT

Author: Marta Leah Nelson

**Economic Development with Equity: Case Study of Market Creek Plaza Community Development IPO in San Diego, CA**

As the economic core of inner cities has declined, economic developers have searched for revitalization strategies to spur sustainable economic growth while addressing inner-city poverty. A two-pronged approach to address both of these efforts simultaneously in inner cities is rare. The Market Creek Community Development Initial Public Offering (CD-IPO) is a model project designed both to create economic re-development of a brownfield inner-city site, and to provide a community-based asset-building opportunity for low- and moderate-income neighborhood residents to combat the incidence of poverty. The Market Creek CD-IPO was "issued" in 2006 for a ten-acre, $23 million commercial real estate development in San Diego, CA. It was the result of an effort by the Jacobs Family Foundation to design a unique project to meet the needs of the Diamond neighborhood in southeast San Diego. Through an offering of "shares" in the commercial real estate deal, lower- and moderate-income residents of the Diamond neighborhood were able to invest in about 20% of the total ownership of the Market Creek shopping center project in 2006. This case study will describe the particular Diamond neighborhood demographics and the role of the Jacobs Foundation in initiating the Market Creek project, and explore the investment structure and regulatory hurdles faced by the unique structure of the Market Creek CD-IPO, and the investment model it represents. Finally, this paper will offer a critique of some of the challenges and opportunities inherent in the Market Creek CD-IPO model.

## Acknowledgements

I would like to acknowledge my adviser, Dr. Meenu Tewari, for her ongoing support, advice, and guidance throughout this project. She has been a true teacher by challenging my intellect in a way that inspired me to challenge myself. I would also like to acknowledge Anne Claire Broughton of SJF Advisory Services, with whom I discovered the project. She provided support in the initial stages of the project, and helped in my research by collecting project materials at conferences and the like.

I would also like to thank all my colleagues and friends at DCRP for their support in pursuit of this project. For those about to plan…

## Table of Contents

## List of Exhibits

## Section 1: Inner-city Revitalization through Economic Development

The economic backbone of inner cities has frayed since the 1960s. In conjunction with the de-industrialization of the United States economy, the decline of the manufacturing sector has eroded the economic base of cities. This decline has caused an increase in poverty and reduced the quality of life for many inner-city residents. Planners and economic developers have made efforts to reverse this trend and revitalize inner cities, with mixed results. In the 1990s, a new philosophy animated some of these efforts; some economic development scholars, led by Michael Porter, advocated for unfettered activity in the private sector as the cornerstone for inner-city revitalization efforts. Porter (1995) saw untapped market potential in the underdeveloped aspect of the inner-city market. To the extent that these markets are underserved in retail, financial, and personal service sectors, and often have a relatively high purchasing power per acre, but generally lack access to products differentiated for the tastes of inner-city customers, Porter (1995) and others saw hidden business opportunities that could flourish in the inner city under the right conditions. The competitive advantages offered by the inner city, if recognized and unencumbered by government regulations, could thus entice the private sector to locate and do business in inner cities, stimulate the economy, and provide jobs and long-term opportunities to city residents. In this argument, Porter assumes that the majority of the private sector is simply unaware of the true market potential offered by inner cities, and thus needs only to recognize this market potential to unleash it. For those private sector actors that have ventured into the inner city, Porter attributes their lack of viability to policy missteps of government agencies[1] and "garbled communication"[2] between community development organizations and potential investors (Porter, 1997), rather than structural limitations of the private market.

Porter's decidedly free-market approach to urban revitalization critiques government and community development institutions as too cumbersome; he recommends reordering the roles of government and community development groups, towards strengthening private sector actors and creating more market opportunities and better business conditions in the inner city. Two of Porter's key inner-city economic revitalization strategies, as paraphrased by Bates (1997) are: "attracting equity-capital investment to minority owned companies" and "redirecting corporate involvement from philanthropy to serious business involvement." Both of these strategies are

[1] Porter mentions inadequate infrastructure investments and maintenance as an example of a policy misstep.
[2] Regarding "garbled communication," Porter (1997) says, "Advocates for inner cities often feel that companies are not doing enough for their communities, whereas business people feel victimized by what they perceive to be unreasonable demands and expectations."

driven primarily by private sector actors, and involve the injection of capital into the inner-city market. According to Porter (1997), these private mechanisms are more efficient in directing capital to the inner city than are alternative strategies, such as issuing small business debt or extending charitable philanthropy. Government, he says, should not provide direct incentives or operating subsidies for inner-city businesses, but rather "create a favorable environment for business," by more indirect methods, such as improving the public school system, training workers, upgrading infrastructure, and streamlining regulations (Porter, 1997). According to Porter (1997), community development organizations should not get involved in business operations, offer alternative business services, or participate in business ownership, but should, rather, serve as a job-resources intermediary and facilitator of site development on behalf of private companies. By reducing government and community groups' interference to a minimum, Porter suggests that the private sector will apply free-market principles to achieve beneficial outcomes for the inner city.

Economic development scholars blanched in response to Porter's suggestions to scale back on the direct engagement of public or community-based groups with inner-city residents. In a scathing critique of Porter's market-driven proposition, Harrison and Glasmeier (1997) argue that successful stimulation of inner-city markets is not a default effect of private investment. Rather, they recognize the entrepreneurial actions of some city governments and some community development organizations as the drivers of strategy and intervention that achieve successful outcomes (Harrison & Glasmeier, 1997). For example, the type of institution that can most successfully administer job skills training is the subject of fierce debate within development circles and the policy literature; this debate can demonstrate the complexity of the participation of different types of institutional actors. Harrison and Glasmeier (1997) argue that Porter's emphasis on indirect intervention courtesy of the private sector, such as job skills training, ultimately serves as a subsidy, not for small entrepreneurial businesses, but for mainstream businesses. Hence, such action often does not result in shared long-term benefits for the inner-city workforce (Harrison & Glasmeier, 1997). More specifically, private sector job-training programs likely focus on "employer conceptions of their immediate training needs rather than to industry-wide benchmarks" (Harrison & Glasmeier, 1997, referring to Glasmeier & Conroy, 1994)—training for which private sector employers would ordinarily pay internally (Osterman & Batt, Employer-Centered Training for International Competativeness: Lessons from State Programs, 1993). Additionally, company-specific job training models do not often include all levels of education and racial or ethnic diversity in their program recruits (Osterman & Batt, Employer-Centered Training for International Competativeness: Lessons from State Programs, 1993). On the other hand, state-run job training programs show a bias toward larger firms, because it is bureaucratically easier for the state to deliver a few programs to a few large firms (Osterman & Batt, Employer-Centered Training for International Competativeness: Lessons from State Programs, 1993). Often, these programs are also project-specific, pay little attention to system-building, and do not operate within an integrated system of other available resources for job training participants (Osterman & Batt, Employer-Centered Training for International Competativeness: Lessons from State Programs, 1993). The best models for job training programs are rooted within community colleges, because these institutions are more bureaucratically stable, less likely to systematically exclude low-income groups and people of color, and are better able to coordinate between multiple state and federal programs (Osterman & Batt, Employer-Centered Training for International Competativeness: Lessons from State Programs, 1993).

A specific example of collaboration between institutions is Project QUEST in San Antonio, one of the most successful workforce intermediary programs in the country. Project QUEST was founded by two community organizations that worked with businesses to create demand-driven workforce training programs (Osterman & Lautsch, Project QUEST: A Report to the Ford Foundation, 1996). The actual job training took place almost exclusively in community colleges, and both Project QUEST staff and the community colleges worked together to design the training program curriculum (Osterman & Lautsch, Project QUEST: A Report to the Ford Foundation, 1996). Project QUEST also included high-level support of job training program participants, including assistance in navigating the community college system; as well as a wide range of emotional, personal, and family support (Osterman & Lautsch, Project QUEST: A Report to the Ford Foundation, 1996). The high-level of support distinguishes Project QUEST from other job training programs, and is considered pivotal to its success (Osterman & Lautsch, Project QUEST: A Report to the Ford Foundation, 1996). Through these unique features, Project QUEST created institutional change by protecting workers, raising wages, and delivering local, qualified candidates to specific jobs in the business community (Osterman & Lautsch, Project QUEST: A Report to the Ford Foundation, 1996). For Harrison and Glasmeier (1997), these types of decisive policy initiatives and strategic collaboration between governments, the private sector, and community development groups are required to create successful economic development opportunities to initiate inner-city revitalization.

Porter (1997) offers another example of a successful, free-market-based inner-city initiative, the Community Reinvestment Act (CRA), which is a federal law designed to encourage financial institutions to take deposits and meet the credit needs of all communities, particularly including low- and moderate-income communities. He refers specifically to the financial sector's participation in such projects by discussing and Bank of America's lending, under the auspices of the CRA, to the Neighborhood Advantage program in 1990. Porter attributes the success of the program to determination of creditworthiness by "nontraditional methods" and correlates the "lower down payments" required under this initiative with lower foreclosure rates. However, Porter does not acknowledge the very market failure that the CRA addresses by forcing banks to serve the so-called secondary market of inner-city residents, where the secondary market includes those who are excluded from the free market due to lower income levels, or because of their social status as persons of color, for example. Nor does Porter acknowledge how widespread that secondary market may be. These oversights constitute a key missing piece within his free-market endorsement for inner-city revitalization, and demonstrate an additional condition beyond the poor government policies and "garbled communication" that he blames for economic slumps in inner cities.

In his emphasis on self-sufficiency of private sector initiatives, Porter overlooks some of the issues faced by inner-city business owners, due to market failures specific to the inner city. Beyond the regulatory hurdles identified by Porter, such as extensive permitting requirements, inner-city entrepreneurs do not have access to financial products and services equivalent to those available to their suburban or ex-urban counterparts. Regarding Porter's salve of attracting equity capital investment to minority-owned companies, Harrison and Glasmeier (1997, referring to Bates) explain that higher debt-to-equity ratios contribute to the high rate of failure of start-up businesses in urban minority neighborhoods. In this example, the private sector's institutional norms dictate discrimination based on race, which results in more unfavorable loan terms and thus business failure. This is a market failure almost specific to the inner city, where most minority entrepreneurs reside.

Market failures are accepted as part of our economic system in the United States. However, it is worth examining the "failure," not as inherent to the free market, but as an aspect of the institutions that we have created in order to structure market-based exchange. As Harrison and Glasmeier show, market forces by themselves do not cause upturns or downturns, but rather do so in interaction with the nature of institutions that prevail. Hernando de Soto (2000) writes about the construction of financial systems in the West, and critiques the institutional structure in a way that can shed light on Porter's debate. De Soto (2000) makes the point that financial systems in the West are constructed to transform earnings, inherited capital, and land ownership into wealth. He contrasts the United States with developing nations such that, despite the innovations found in developing countries in real estate development and the "entrepreneurial" use of space, developing nations are weighted down with “dead capital” when compared with the U.S. and other developed nations (de Soto, 2000). That is, dead capital is a capital resource that cannot be leveraged to create further wealth, not because of the value of the capital, but because no mechanism exists to leverage it. In developing nations, there are no financial institutions and structures to title, deed, and leverage property ownership (de Soto, 2000). Thus, developing nations are unable to transform property ownership and entrepreneurial behaviors into leveraged capital, such as a mortgage with which to borrow money in order to grow additional businesses or property ownership. While such institutional structures clearly exist in the U.S., not everyone can utilize them, again, because of income level or other factors. However, since these financial systems are constructed, it stands to reason that we can and should design additional financial systems to serve those individuals within the secondary market in order to pursue economic equity. Often, government programs or community-based organizations develop the programs to offer wealth-building opportunities for these individuals in the secondary market. To extend de Soto’s ideas, low- and moderate-income groups in the inner city could already have significant capital, as Porter also claims. However, these groups may also need the development of institutions and financial vehicles if they are to act as intermediaries to build wealth from their assets, because, despite the free market potential in the inner city, this potential cannot be realized by market forces alone. Though de Soto sees property ownership as a panacea, it is not necessarily a guaranteed pathway to economic security. While de Soto’s argument is notable for his focus on harnessing the market to generate wealth in poor communities, a closer reading of what it will take to do so highlights the constructed nature of the institutional mechanisms that can help activate “dead capital.”

Porter (1997) believes that the creation of income and wealth can be achieved by “harnessing market forces.” While this may be true for primary free-market participants, or those who are able to access mainstream financial institutions to leverage their capital and resources, the responses to Porter’s article by Harrison and Glasmeier (1997) and Bates (1997) show the institutional processes undergirding these seemingly market-driven processes. Hence, government policies and community development groups may be best suited to extend market services and benefits to the secondary market, but this does not exclude work with the private sector. In order to revitalize inner cities through growth, equity in the economic development process is important to ensure long-term success. As Harrison and Glasmeier assert, government and community development groups may be the best suited to broker public-private partnerships with a greater goal of equity in development.

The Market Creek Community Development Initial Public Offering (CD-IPO) project provides a case study from which to analyze new vehicles for urban revitalization and economic development with equity. The Market Creek (CD-IPO) is a rare example of a project designed to both create economic re-development of a brownfield inner-city site, and to provide a community-based asset-building opportunity for low- and moderate-income neighborhood residents to combat the incidence of poverty. By examining the institutional supports that made this project possible, I argue that the Market Creek Community Development IPO is the product of intense collaboration between government, community development, and private sector actors working together to create and implement this innovative model. While the CD-IPO model was developed by the Jacobs Family Foundation and its associated partner organizations (referred to as the Jacobs Network), the foundation sought special certifications from state and local government officials, and utilized strengths of grassroots community groups and skills unique to the Jacobs Foundation. This case study will show how the innovative model of the Market Creek CD-IPO replicates some aspects of other successful market interventions and recombines them in a new way with the goal of increasing equity in economic development. Planners will learn that the pursuit of equitable economic growth requires us to build values of equity into our political, financial, and social institutions.

This paper is organized as follows. The next section provides the context of asset-building strategies, of which the Market Creek CD-IPO is a part. Section 3 is divided into ten sub-sections that make up the bulk of the case study; these sub-sections provide project background (3.1), explain the research methodology (3.2), examine the hands-on grant-making process of the Jacobs Foundation (3.3), describe the demographics of the Diamond neighborhood (3.4), illustrate the community outreach process and the inception of the CD-IPO (3.5), analyze the investment structure of the CD-IPO (3.6), detail other sources of funds from the secondary market (3.7), explain the key role of New Market Tax Credits in the project (3.8), describe the institutional supports provided by the state (3.9) and the city (3.10) for the Market Creek Plaza project (3.9), outline the workforce training and capacity-building impacts (3.11). Section 4 discusses the effect of the recent economic downturn on the project. Section 5 concludes the case study and highlights some lessons for planners.

## Section 2: Creating Wealth in Inner Cities: Investment Strategies for Asset-Building

Long-term wealth can increase equity and stability for city residents of all income levels, and thus provide the sustainable growth that is necessarily at the core of inner-city revitalization. As part of this effort, economic developers must address the high incidence of poverty in inner cities. Recent policies geared towards empowerment of inner-city residents, likely low-income groups or communities of color, have focused on self-sufficiency of hardworking families rather than on a welfare-based model. However, American families require more than just a job and an income to move out of poverty. Rather, they need to find ways to increase its net worth (assets less debts). Asset-building programs operate as add-on tools to help working families sidestep poverty. Building assets such as owning a home, completing higher education, owning a business, or saving for retirement are ways to shore up a family's financial future and increase their net worth. Traditionally, the nation's policies for wealth accumulation have primarily benefited those at the highest income levels. Since the early 1990s, asset-building programs have grown to target low- and moderate-income people so that they may also benefit from the economic wealth in the American economy.

Asset-building programs can be divided into two types of strategies: savings strategies and investment strategies. Savings strategies focus on policies and tools that enable people to save money in order to accumulate financial assets. Individual Savings Accounts (IDAs), matched savings accounts targeted towards helping income-qualifying individuals save for long-term productive assets such as homeownership, were the first policy tool of this type. Since the early 1990s, IDAs have been expanded to include asset targets beyond homeownership such as higher education, business ownership, and retirement savings (Gale, 2006). Additionally, IDA programs were developed to focus on savings accounts for children, particularly for children's college education. While studies have shown that lower income people can succeed at saving (Schreiner, Clancey, & Sherraden, 2002), unexpected financial events, such as a medical emergency or extensive automobile repair, have meant that people have had to withdrawal savings, thus losing the matched amounts – and have indicated some failures in IDA programs (Gale, 2006).

Investment strategies to build assets have traditionally been focused on homeownership programs. However, just as many upper-income individuals have a diversity of assets beyond their home equity to offset financial instability, it follows that lower-income individuals need the same diversity of assets to protect them against economic downturns. Additionally, homeownership may not always be the best investment for low-income people due to fluctuations in the housing market, as evidenced by the deflation of home values in the current housing crisis. Therefore, other opportunities for investment and financial return on assets may offer an alternative primary or supplementary vehicle for investment to the ends of raising a family's net worth. Asset-building investment programs include vehicles to contribute to increased business owner equity, such as worker-owned cooperatives, employee wealth-sharing mechanisms, and collective ownership of community businesses (McCulloch, 2006). A relatively new vehicle to provide lower income individuals with alternative opportunities for investment in assets is a community development initial public offering in commercial real estate, which is the subject of the case study highlighted in this paper.

## Section 3: Market Creek Community Development IPO Case Study

### 3.1: Introduction

The Jacobs Family Foundation "issued" the Market Creek CD-IPO, a ten acre, $23 million commercial real estate development in San Diego, CA, in 2006. As part of their strategy of a long-term, hands-on grantmaking process, the Jacobs Family Foundation designed a unique project to meet the needs of the diverse groups of persons and families in the Diamond neighborhoods in southeast San Diego. Through an offering of "shares" in the commercial real estate deal, lower and moderate income residents of the Diamond neighborhood were able to invest in about 20% of the total ownership of the Market Creek shopping center project in 2006. The other 80% of project financing was obtained from a mixture of private sources and foundation support. The Market Creek CD-IPO also utilized local and state governmental regulatory supports and federal New Markets Tax Credits.

### 3.2: Research Methodology

Analysis of this case study was geared towards understanding the details of the Market Creek Community Development IPO structure, particularly of the institutional supports that facilitated the model's development. To learn about the project's complex structure, I gathered data about the project from published materials, newspaper articles, and the Jacobs Neighborhood Center for Innovation annual report. I also researched neighborhood plans in the city of San Diego. To obtain supplemental data and additional detail, I conducted several thirty minute phone interviews with project participants, including local city planners, and Jacobs Foundation representatives in both community development and private-sector development aspects of the organization. The interviews were open-ended, with a loosely structured pre-prepared protocol of key questions and themes.

To select interview participants, I conducted a stakeholder analysis and listed all salient "roles" in the Market Creek project. I obtained the names of a few people that work at the Jacobs Foundation based on articles about the project from the Jacobs' Foundation website that included specific names, pictures, and e-mails of Market Creek CD-IPO project contacts. I obtained further contact information about other "roles" from Jacobs Foundation contacts during initial interviews, including email addresses, based on whom they worked with on the project. Additionally, I spoke with a few alumni from the University of North Carolina at Chapel Hill's Master's program in City and Regional Planning, whose names were provided to me by my department as persons working in the planning field in San Diego. I asked the alumni for names of city officials within the planning field who work in the neighborhood areas where the project took place, or who are engaged in related fields of philanthropy or community development finance, and might have worked on the project. Since interview subjects were primarily identified through referrals by other subjects, a technique called snowball sampling, there may be some pro-project bias in the sample. For the purposes of my research aims, which sought to understand the process and dynamics of why and how the Market Creek CD-IPO came about, this convenience sampling methodology was important. Interviewees that provided information about the project that is included in this case study are anonymously indentified through their organization name, and a number if applicable, in accordance with Institutional Review Board protocols approved for the case study.

## 3.3: Jacobs Family Foundation: Embracing a Hands-on Grant-making Strategy

The Jacobs Family Foundation (JFF) is a San Diego-based foundation that developed a long-term, hands-on grant-making strategy with an intense geographic focus in the Diamond neighborhoods of southeast San Diego (Jacobs Family Foundation - Who We Are), the location where the case study takes place. JFF was founded in 1988 by the Jacobs family, Joseph J. Jacobs Jr., Violet Jacobs, and their daughters (Jacobs Family Foundation - Who We Are). Their current $25 million in endowment funds were set aside when the family business, Jacobs Engineering Group, went public (The Funder's Network - Member Profiles, 2003). From 1988 to 1997, JFF primarily focused on grant-making and technical assistance targeted on community-based non-profits located overseas (The Funder's Network - Member Profiles, 2003), several of which were in the Middle East (Jacobs Network contact #1, personal communication, April 2009). However, in September 1998, JFF began to align its portfolio investments closer to its philanthropic mission by investing in ventures like UrbanAmerica, L.P. (The Funder's Network - Member Profiles, 2003), a pioneering commercial real estate firm that specialized in acquisition and development of commercial centers in diverse, inner-city markets (UrbanAmerica - Investment Strategy, 2008). Perhaps inspired by the work of UrbanAmerica, L.P. and dissatisfied with the effects of its current grant-making strategies abroad, JFF changed its grant-making strategy around the time of this investment. JFF developed a new philanthropic strategy focused on place-based community development through direct investment, in order to have more control over its impact (The Funder's Network - Member Profiles, 2003).

Originally headquartered in Pasadena, CA where the Jacobs Engineering firm was also located, JFF relocated its headquarters to San Diego where the daughters of Joseph and Violet

Jacobs then lived (Jacobs Network contact #1, personal communication, April 2009). One of JFF's initial projects in the Diamond neighborhoods of San Diego was working with the Elementary Institute of Science (EIS), an organization that offers after school technology and science learning programs for children (Jacobs Network contact #1, personal communication, April 2009). The foundation worked with EIS to expand their efforts from operating out of "a two-bedroom ramshackle white house" in a run-down neighborhood to operating with a $7-8 million endowment (Jacobs Network contact #1, personal communication, April 2009). Working with EIS to accomplish this transformative change inspired the founders of JFF. After 1999, all of JFFs resources and efforts were focused in the Diamond neighborhoods, specifically in the Market Creek Plaza project. To serve its goals of achieving more profound grant-making impacts and catalyzing community change from within, Jacobs hired a team of community residents to survey their neighbors about the community's priorities (The Funder's Network - Member Profiles, 2003). Over 600 interviews were conducted by resident survey teams in four languages during this time period, and the material gathered in these interviews formed the basis of the community vision for Market Creek Plaza. Diamond neighborhood residents talked about wanting to "put their own hard-earned money into projects in their neighborhood" (Jacobs Network contact #2, personal communication, April 2009). Mr. Jacobs, a lifelong entrepreneur, also believed that people would be more personally invested in their neighborhoods if they had some "skin in the game"[3] or owned what is there (Jacobs Network contact #1, personal communication, April 2009). Along these lines, one of JFF's mission statements is "resident ownership in neighborhood change."

In order to facilitate resident empowerment, JFF institutionalized an incredibly diverse skill set through development of a group of related organizations which is referred to by Jacobs's staff as "the Jacobs Network." The Jacobs Network includes several non-profit and for-profit entities, such as the Jacobs Family Foundation; the Jacobs Center for Neighborhood Innovation; Diamond Management, Inc.; Market Creek Partners; Market Creek Community Ventures; the Jacobs Community Development Group; The Village at Market Creek; and various property-holding Limited Liability Corporations (LLCs) (Jacobs Family Foundation - Contact Us). All the entities in the Jacobs Network collaborate on Market Creek Plaza and other efforts in the Diamond Neighborhoods. Within the Jacobs Network, Jacobs' staff can acquire properties, build and subcontract construction, provide property management, run security and maintenance services, provide tenant leasing, offer business development services, and broker property sales (Jacobs Network contact #1, personal communication, April 2009). This contact said that

[3] Expression attributed to Warren Buffet.

working for Jacobs is a “twenty-four hour per day job,” and that someone working on the project “cannot be involved in the project on a cursory basis.” Because so much of Jacobs’ work is driven by participation of neighborhood residents, most meetings take place in the evenings when residents are away from their jobs (Jacobs Network contact #1, personal communication, April 2009). Based on the description of the level of staff involvement required to make the project viable, it could be argued that Jacobs Network staff internalizes the hands-on grant-making strategy that is explicit in JFF’s mission. The large range of services and resources offered by the Jacobs Network demonstrates its dexterity in both the market-driven and the philanthropic realms.

Unlike many other foundations, JFF is a “limited life” foundation, which means that it will terminate its operations, or sunset, around 2020. Since the foundation’s Board of Directors is managing the funds to be depleted by the sunset date, JFF manages its assets in a different way than most other foundations. While perpetual foundations cautiously manage their portfolio toward long-term investments, JFF more aggressively manages its assets to leverage them during the time period of its operations. Pursuing maximum leverage means accepting increased risk in investments, such as an atypically high proportion of the endowment held in stocks and bonds – about 50% (Jacobs Network contact #1, personal communication, April 2009). JFF also holds a high proportion of its assets in ownership of neighborhood properties (Jacobs Network contact #1, personal communication, April 2009). At the time that JFF sunsets, its funds will be spent and properties such as the Market Creek Plaza project will transfer to private self-management by neighborhood organizations and institutions. JFF is working with neighborhood resident teams to discuss this succession process and craft institutional capacity within the neighborhood to support the project after JFF transitions out (Jacobs Network contact #2, personal communication, April 2009). While succession planning is still occurring, an institutional examination of this transition would surely be informative in further study.

## 3.4: Not Your Typical Investor Profile: Diamond Neighborhood Demographics

The Jacobs Network (Jacobs) encountered modest income demographics and a high proportion of people of color and diverse cultural backgrounds in the Diamond neighborhoods, especially when compared to the city of San Diego as a whole. This demographic profile is typical of the type of neighborhoods that Porter and Harrison and Glasmeier were debating as a prime site for market-driven or community development investments intended to stimulate the inner-city economy.

The Diamond neighborhoods of southeast San Diego are comprised of ten neighborhood sub-areas including Chollas View, Emerald Hills, Lincoln Park, Mountain View, Mount Hope, North Encanto, Oak Park, South Encanto, Valencia Park, and Webster. A comparison of population and income demographics of the Diamond neighborhoods and San Diego city is shown in Exhibit 1.

**Exhibit 1: Population and Income Demographics for Diamond Neighborhoods compared to San Diego**

| | Diamond Neighborhoods* | **San Diego**** |
|---|---|---|
| **Population** | 88,000 | **1,223,400** |
| **Median Household Income** | $32,000 | **$46,000** |
| **Less Than $20,000** | 30% | **20%** |
| **Own Home** | 52% | **50%** |

***Source: Jacobs Foundation, citing U.S. Census 2000.**

****Source: American Factfinder, U.S. Census 2000.**

Approximately 88,000 residents live in the Diamond neighborhoods (Market Creek Plaza - Diamond Neighborhood). The median household income is $32,000 (Green, 2006), while the citywide average is higher at $46,000 (U.S. Census Bureau, 2000). Thirty percent of residents live on less than $20,000 per year (Green, 2006), a greater percentage than the citywide average of 20% (U.S. Census Bureau, 2000). Fifty-two percent of residents own their own homes, which is slightly higher than the city wide average of 50%. Based on these demographics, it appears that the Diamond neighborhoods have a lower income profile than the average for the city of San Diego.

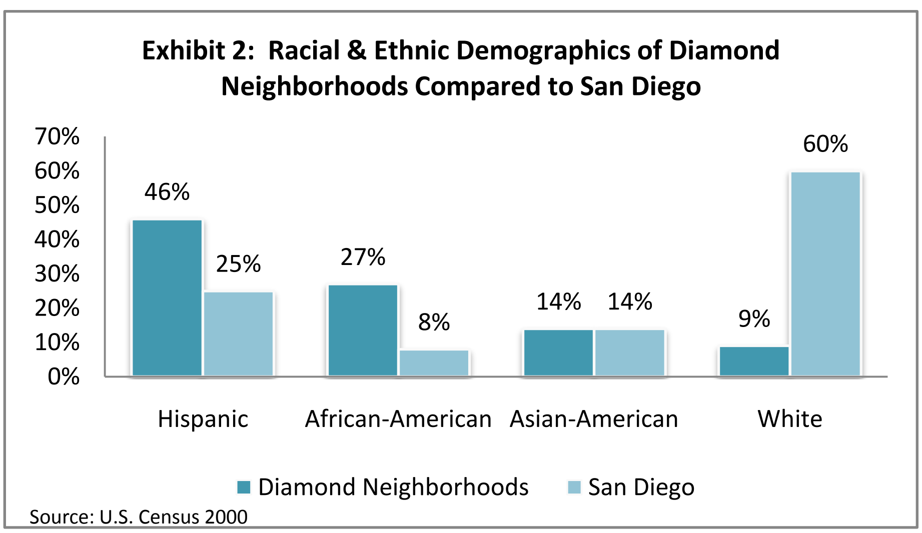



**Exhibit 2: Racial & Ethnic Demographics of Diamond Neighborhoods Compared to San Diego**

A breakdown of ethnic and racial diversity in the Diamond neighborhoods compared to San Diego is shown in Exhibit 2. Specifically, the Hispanic population is 46% as opposed to 25% of San Diego (U.S. Census Bureau, 2000). The African-American population in the Diamond neighborhood makes up 27% of people living in the neighborhood, while African-Americans only represent 8% of the citywide population (U.S. Census Bureau, 2000). In contrast, the white population of the Diamond neighborhoods is 9%, while whites make up 60% of the population of San Diego (U.S. Census Bureau, 2000). Significant populations of Laotian, Samoan, Filipino, and Somali groups live in the Diamond neighborhoods as well (Robinson, 2005). The ethnic diversity of the Diamond neighborhoods was a significant factor in the neighborhood outreach process at the initial stages of the project.

## 3.5: Community Outreach and CD-IPO Inception

Even before Jacobs purchased its first ten-acre piece of property, the Jacobs Family Foundation solicited input from neighborhood residents on the types of community projects that would benefit the Diamond neighborhood (Robinson, 2005). When surveyed by community teams, neighborhood residents said that they wanted to invest in neighborhood businesses, to exert more control over the types of retail businesses in their community, and to make provisions to keep jobs local (Robinson, 2005). Specifically, residents voiced desire for a grocery store and entertainment options in the neighborhood, and requested that liquor stores be shut down (Jacobs Network contact #1, personal communication, April 2009). These initial interviews were gathered into the "top ten" guiding goals that formed the vision for the Market Creek effort (Jacobs Network contact #1, personal communication, April 2009). Jacobs made special efforts to address the different cultural groups in the Diamond neighborhoods by inviting each ethnicity to host a cultural event at Jacobs offices, which included sharing in the particular food, clothing, traditions and culture of each (Robinson, 2005). Jacobs also recruited participants from all cultural groups to serve on resident teams.

Cross-cultural resident teams were formed and worked on outreach, art and design, construction, business development and leasing, ownership design, resource development, and childcare committees (Robinson, 2005). Over 2,860 individuals participated in the Community Design and Planning Team, and 1,082 individuals participated on fifty-two "Working Teams" (Jacobs Center for Neighborhood Innovation, 2008). Similar to some of the additional resources offered to support job training participants in Project QUEST, Jacobs offered supportive resources to residents to better facilitate their participation. One mother of four was quoted in a PolicyLink case study (Robinson, 2005) as saying:

> [Jacobs Center for Neighborhood Innovation] has really encouraged me to participate. They built an indoor play area with a big glass window so that we can see our kids. Also, we talked about which hours would work best. I can't make afternoons because I start picking up my kids at 2:30. Also they provide food so I can bring my kids and they can eat.

Jacobs Network also offered some stipends to neighborhood residents who made "a particularly intensive and sustained contribution to the work" (Robinson, 2005). Some team members who worked between ten and fifteen hours per week were paid $6.50 and, later $8, per hour to compensate them for neighborhood-specific project knowledge and problem-solving skills dedicated to the project (Robinson, 2005). Interestingly, resident teams involved in planning have been folded into the Jacobs Network institutional structure during the implementation and operations stages of the project (Jacobs Network contact #2, personal communication, April 2009). The continued involvement of neighborhood residents is rare within the planning field; often, stakeholder involvement stops after the plan-making stage. In the case of the Market Creek Plaza project, residents continue to help the Jacobs Network to design the vision and institutional structures as the project moves forward.

A Jacobs Network contact said that the "rule of thirds" was a guiding principle for the neighborhood residents on the Ownership Design team when they helped to design the Market Creek Plaza Community Development-IPO (Jacobs Network contact #2, personal communication, April 2009). The "rule of thirds" is a community development principle where one-third of a community's resources should be dedicated to individual benefit, one-third should be shared with the community, and one-third should be set aside for long-term sustainability (Jacobs Network contact #2, personal communication, April 2009). On the administrative level, Joe Jacobs and the Board of Directors identified a need to facilitate neighborhood residents to be able to invest in the ownership of their own neighborhood, but there was no investment vehicle to do so at the time the project started (Jacobs Network contact #2, personal communication, April 2009). Particularly, there was no mechanism to confine financial benefits of ownership of a community to that specific community. Also, neighborhood residents did not meet the State of California's threshold for "qualified investors" because of income and net worth requirements dictated by traditional valuation procedures. Jacobs Network contact #2 explained that, "the resident teams and foundation staff set about to develop a new tool for community development that could be accessible by anyone in the community, had a broad outreach within the community, and with a lower threshold for income and net worth than a typical investor." This innovative tool was the Market Creek Plaza Community Development IPO (CD-IPO), the structure of which is explained in the next section.[4]

---

[4] Note: Other than the stories and theoretical guidelines provided here, I could not ascertain from published materials or through interviews more detail about who administered the CD-IPO or what expertise was needed to do it. Jacobs Network contacts appeared to be willing to convey only that it was a general group effort between the Jacobs Network and neighborhood residents.

### 3.6: Investment Structure of Market Creek CD-IPO

The Market Creek CD-IPO works similarly to a public offering on the stock market, in that a financial investment in the project can earn a profit-based return and provide an ownership stake. Though the Market Creek Plaza project ultimately required additional funding, a total of $2.5 million of the $23.6 million of total investment was eligible for an ownership stake and investment dividends (Exhibit 3). The CD-IPO investment structure was designed to allow for some commercial bank funding, some non-profit and grant funding, and some private investments. The community development aspect of the project allows for the private-investor component to include investors of low to moderate income, who live or work in the community.

Exhibit 3: Sources of Funding and Ownership-Qualified Investments

| | *Monetary Amount* | *Ownership* |
|---|---|---|
| Diamond Community Investors (425 Investors) | $500,000 | 20% |
| Jacobs Center for Neighborhood Innovation | $1,500,000 | 60% |
| Neighborhood Unity Foundation | $500,000 | 20% |
| **Total Financing Eligible for Ownership Stake** | **$2,500,000** | **100%** |
| Additional PRI Investments (Foundations) | $6,100,000 | Not eligible |
| New Markets Tax Credit Loan | $15,000,000 | Not eligible |
| **Total Project Funding** | **$23,600,000** | |

Source: Social & Economic Impacts Report, Calendar Year 2007. The Village at Market Creek.

Twenty percent of the ownership-qualified investment, or up to $500,000, was reserved for investments by the Diamond Community Investors (DCI), a partnership group for 425 community investors (representing 600 people such as spouses, children, or church groups) (Market Creek Partners, 2008) from the adjacent ten neighborhood sub-areas in the Diamond Neighborhoods (Market Creek Plaza - Diamond Neighborhood). Investors from DCI could purchase “shares” in the development for $10, with a minimum purchase of twenty shares. Investments were capped at $10,000 and the average investment was $1,185 (Market Creek Partners, 2008). After the center was opened in 2006, DCI participants became eligible for a preferred return on investment up to 10% (Green, 2006). Investors could opt into a payment plan for the investment, and non-profits and churches could also invest in the project. The investments from DCI were placed into the commercial center’s infrastructure, but not into the businesses operating there, which reduced some of the investment risk as long as property values hold constant (Green, 2006). Additionally, 60% of the ownership-qualified investment was made by the Jacobs Center for Neighborhood Innovation and its management company (Market Creek Partners, 2008). The final 20% was invested by the Neighborhood Unity Foundation, a neighborhood-led charity administered by the Jacobs Family Foundation (Market Creek Partners, 2008). A unique aspect of the ownership structure is the representation of one investor to one vote (Jacobs Network contact #2, personal communication, April 2009). Rather than a proportional ownership voting structure, such as is the case with venture capital and other investment deals, Jacobs Network staff and resident teams structured the management framework of the CD-IPO to ensure that residents have presiding authority over a large portion of the investment (since there are a greater number of residents than Jacobs Network representatives in the deal).

Community residents played a key role in recruiting their neighbors to participate as resident investors and helped to convince them to overcome skepticism about the investment tool. Regarding this process, a contact from the Jacobs Network said:

> Members of the resident ownership team had helped design it so they were able to explain what the risks were to other residents. Mid-way through the offering period, the church networks in the neighborhood began to get involved, as well as other resident groups. On the last day of the offering (Oct 31, 2006) there was a line around the block. Jacobs met both its participation and investment goals, with 425 investors and $500,000 in investment.

Materials given to potential investors clearly outlined the potential risks associated with investment, namely that the Jacobs "company" was new, that profits were not guaranteed, that the investment was long-term, and that there was a possibility that shares could not be sold unless the potential buyer met the investor qualifications for the project (Jacobs Center for Neighborhood Innovation, 2006).

If the Market Creek shopping center makes a profit, the investment contract dictates that annual dividends will be paid to Diamond Community Investors through a preferred claim to the first $50,000 in profits (Green, 2006). Profits between $50,000 and $205,000 will be distributed to the Jacobs Center and the Neighborhood Unity Foundation. Profits beyond $205,000 will be dispersed equally among the shareholders (Green, 2006). In 2005, the Market Creek Plaza earned a profit of $128,000, though it was not fully leased. In 2006, Market Creek earned a profit of $99,855 after operating expenses, loan interest, depreciation, and lease amortization (Jacobs Center for Neighborhood Innovation, 2008). Since the CD-IPO closed in 2006, Diamond Community Investors did not receive a dividend in that calendar year. In 2007, the net income of the Market Creek Plaza project was $111,236, which allowed for a full dividend of 10% on investment for resident investors (Jacobs Center for Neighborhood Innovation, 2008), of which eighty-two decided to reinvest in future community development projects (Interview with Jacobs

Network contact 2009). The Market Creek Plaza project provided dividends to neighborhood investors for the second time in 2008, when 147 investors chose to reinvest their earnings from dividends (Jacobs Network contact #2, personal communication, April 2009).

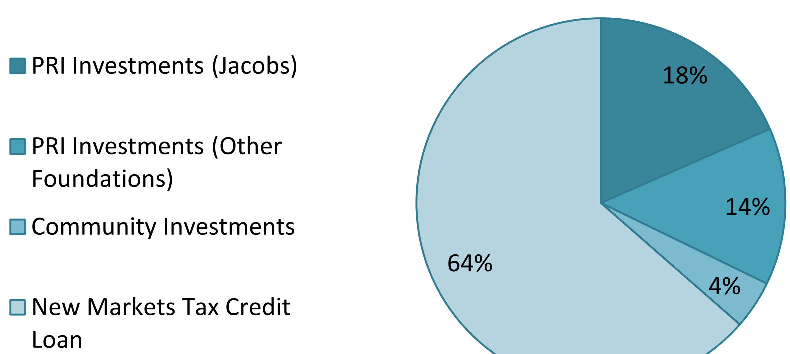
As an asset-building tool, it is too early to tell if the Market Creek CD-IPO will successfully build an individual investor's net worth. However, there are both short-term and long-term financial benefits of the investment worth noting. In the short term, the investment provides annual cash dividends. While residents have received dividends, the monetary amount is probably rather small: for a $1,000 investment, the dividend is $100. Even so, this is a higher interest rate (10%) than most other savings vehicles with only moderately higher risk for neighborhood investors than a savings account, and much less risk than investing in the stock market. The long-term nature of the investment tool fulfills the goal of creating long-term wealth in that it can show up as an additional asset in a resident's net worth calculations and can provide an experiential learning tool that could lead to further investments. One of the limitations of the Market Creek CD-IPO model as an asset-building vehicle for low- and moderate-income individuals is the small monetary amount of the investment and the resulting small monetary impact. Specifically, an upper limit of $10,000 cannot compare to the amount of equity that homeownership could provide. However, the greatest promise of this type of tool is not as a substitute for homeownership but, rather, as an asset diversification tool.

The act of choosing to reinvest dividends by 35% of the Diamond Community Investors encourages asset-building through savings because rather than being spent on short-term consumption, this money is held in an interest bearing account until the investors decide the best place and investment vehicle within the larger project, the forty-five continuous acres of the Village at Market Creek (of which Market Creek Plaza makes up ten acres). This commitment to long-term neighborhood involvement and neighborhood investment is perhaps the biggest impact on inner-city revitalization. There is also an element of community accountability inherent in the structure that promotes savings and reinvestment, similar to microlending programs. In microlending programs, repayment of loans by individuals often determines the ability of the community to expand their financial resources. In the case of the Market Creek CD-IPO, reinvestment directly into the community is not mandatory and does not determine project growth, but there are clearly implications of social responsibility inherent in participation in the project. Expansion of the investment is directly tied to the expansion of wealth in the community; direct participation of neighborhood residents is fundamental to the model.

## 3.7: Additional Funds from the Secondary Market: Program-Related Investments

When Jacobs began pursuing the Market Creek Plaza project, project risk was a major deterrent for the traditional financial institutions that it approached about project financing (Jacobs Network contact #1, personal communication, April 2009). Jacobs approached ten banks, and not one was willing to invest in the project. When Jacobs began to pursue retail tenants (which would have strengthened the project to qualify for traditional financing), no potential tenants would return calls from Jacobs about the project, even though the Jacobs team had over thirty years of development experience. Jacobs decided to move forward to purchase the property, taking on both the majority of the risk and bearing a majority of the costs at the initial stage of the project (Jacobs Network contact #1, personal communication, April 2009). While a traditional developer would try to move a project forward with little of its own money down and a long escrow, Jacobs borrowed no money, but leveraged its own resources "to the hilt" (Jacobs Network contact #1, personal communication, April 2009). Once Jacobs purchased the property, more tenants were willing to sign on, and Jacobs was able to redistribute its own resources and obtain other types of financing. For example, the first retail tenant to open its doors was a Food 4 Less grocery store that opened in 2003. Once the grocery store was up and running, the income from the store could pay debt service on the project so that other profits could be reinvested elsewhere in the project. A city planner said, "[the Food 4 Less] was the first significant piece of retail in the area. There was no supermarket or drug store prior. Now, the Food 4 Less is the

**Exhibit 4: Pie Chart of Market Creek Plaza Funding Sources**




Source: The Village at Market Creek, 2007

highest grossing store in the San Diego" (personal communication, January 2009).

In addition to the $5.4 million dollars invested in the Market Creek Plaza project by the Jacobs Network, affiliated charitable groups, and the Diamond Community Investors, the $18 million needed to complete financing of the project was provided by funding sources in the secondary market, such as Program-Related Investments (PRIs) from other foundations and from the federal New Markets Tax Credit program (see Exhibit 4 for a breakdown of project funds).

Financing from non-Jacobs affiliated PRIs made up 18% of the total financing for the Market Creek Plaza project. The Foundation Center (2009), a clearinghouse for information on philanthropic organizations, defines PRIs as

> 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 even equity investments in charitable organizations or in commercial ventures for charitable purposes.

PRIs can be utilized as a funding supplement, often when a non-profit or commercial venture cannot obtain financing from traditional sources (The Foundation Center-What is a program-related investment?, 2009). For the funder, investing in a PRI is a way to get maximum leverage from philanthropic dollars by dedicating the funds to a mission-related project, which also has some potential for a financial return (The Foundation Center-What is a program-related investment?, 2009). In the Market Creek Plaza project, foundations such as the Annie E. Casey Foundation made two PRIs totaling $1.25 million (Jacobs Center for Neighborhood Innovation, 2008). The Rockefeller Foundation invested $1 million in the project, its first real estate PRI in the history of the foundation (Jacobs Network contact #2, personal communication, April 2009). Because of the investment structure and the way the ownership stake is divided, these PRIs would not likely gain a return on their investments unless the Market Creek Plaza is tremendously profitable. Most notable about the PRI investments is that the project succeeded in leveraging support from these other foundations because the foundations saw some potential in the project as a profit-making venture. However, the fact that Market Creek Plaza was forced to utilize secondary market sources of funding demonstrates an institutional gap in securing debt from regular banks and financial institutions, even though the project was a market-driven project in the inner city. Along these lines, the federal New Markets Tax Credit program was able to provide additional financial support to fill the institutional gap in the Market Creek Plaza project. The next section will explore the low-cost debt provided to the project from the federal New Markets Tax Credits program.

## 3.8: Project "Savior": New Markets Tax Credits

Jacobs obtained a large amount of secondary market financing from the public sector. By providing 64% of the funding for the Market Creek Plaza project (Exhibit 4), federal regulations – through the New Markets Tax Credit (NMTC) program – played a critical role in creating the space for this market-driven model to take shape. A Jacobs Network contact called NMTC a "savior" to the Market Creek project (Jacobs Network contact #2, personal communication, April 2009). They said, "Before New Markets Tax Credits were available, there were no programs larger than $3 million to help with low-income commercial real estate development projects." Based on the financing structure of this and other projects, a tax credit of only $3 million probably would not be effective in filling the needed financing gap for larger commercial land parcels, due to the difficulty such projects have in obtaining traditional financing. Prior to the NMTC program, all the larger tax credits programs for real estate development were focused on creating affordable residential developments. Regarding the impact of the savings from the NMTC program, another Jacobs Network contact said, "New Markets Tax Credits have helped to keep the cost of money low. Keeping the cost of money low keeps more money in the community, the projects more profitable, and [makes] resident ownership possible (personal communication, April 2009)." Contrary to the standard neoclassical assumptions that public regulation makes capital costly, the financing provided by the public sector in this case corrected an important market failure common to inner cities. Furthermore, the Market Creek Plaza project showed how public spending generated positive externalities by leveraging in non-profit and private sector funding.

The federal New Market Tax Credits (NMTC) program was initiated in 2000 by President Clinton's administration in order to stimulate economic development in economically distressed areas. NMTCs are issued to for-profit entities to administer loans or investments to Community Development Finance Institutions (CDFI). The credit to the investor can total up to 39% of the cost of the investment, and can be claimed for up to seven years. Other federal tax credit programs, such as Historic Tax Credits, are limited for all practical purposes by the number of properties on the National Register of Historic Places. Since many of the urban and rural areas of the United States could potentially be considered economically distressed, the federal government created an allocation cap for NMTCs to match the amount of the federal budget appropriated for this purpose. For example, $3.5 billion in NMTC funds were allocated in 2008

(CDFI Fund - U.S. Treasury - New Markets Tax Credits Program, 2008). Because this funding source is in high demand, the process to obtain credits through NMTC can be competitive.

The Market Creek Plaza project is cited as a success of the NMTC program in several studies (Armisted, 2005; Rapoza, Feighan, Bisson, & Halpern, 2005; Bystry, 2005), particularly because of the high level of community involvement in the design and execution of the Market Creek CD-IPO. In this case, the Clearinghouse CDFI made a permanent loan of $15 million to the Jacobs Center for Neighborhood Innovation (The New Markets Tax Credit Program: How This Incentive Can Strengthen America's Cities - Community Investments Online, 2007). Wells Fargo Bank was the tax credit investor and also opened a branch in the Market Creek shopping center (The New Markets Tax Credit Program: How This Incentive Can Strengthen America's Cities - Community Investments Online, 2007).

Because NMTC is primarily a financial tool used for development projects in areas that encounter difficulty when trying to qualify for traditional financing, a principle measure of program success is the deployment of capital to an economically depressed area (Rapoza, Feighan, Bisson, & Halpern, 2005), and not necessarily other measurable community development effects. In this regard, Brad Lander, Director of the Pratt Center, critiques this aspect of the NMTC program as follows:

> NMTC investors increasingly report that the significant majority of their deals are in real estate (rather than small business, for example). The largest share of these are retail projects, which may offer needed services but generally create the lowest-wage jobs. Relatively few are developed through community-oriented processes that build social capital. And in stronger markets, we have now seen too many places where long-time residents and businesses see too little benefit from rising real estate values.
>
> -*New Markets Tax Credits: Issues and Opportunities*, April 2005

Community development is embedded in the Market Creek Plaza model, which makes it unique among NMTC projects. A few examples of the innovations used in achieving community development aims include the use of community-oriented processes, and the intentional development of social capital within the Diamond neighborhoods. While not all NMTC projects include community development innovations, the incidence of innovation using NMTC has been shown in other case studies with the result of developing additional new models for long-term economic sustainability. For example, the Katahdin Project in Northern Maine utilized NMTC in a rural area to create partnerships between The Nature Conservancy; the Maine-based community development corporation, Coastal Enterprises, Inc.; and the Great Northern Paper Company (Rapoza, Feighan, Bisson, & Halpern, 2005). The crux of the project was to “alter the economics of owning the timberland” to upgrade paper mill operations and to set aside a portion of the land for conservation (Rapoza, Feighan, Bisson, & Halpern, 2005). The Katahdin example demonstrates another innovative aspect of many NMTC projects, which is to provide flexibility for cross-institutional partnerships in order to create new models for economic development that build equity-oriented goals into the model.

## 3.9: State Institutional Supports for Market Creek Plaza

Jacobs Network staff negotiated for certain institutional innovations during the regulatory approvals process that they needed to successfully implement the Market Creek Plaza project. At the state level, Jacobs submitted the investment plan for the Market Creek project to the California Department of Corporations for approval, and for certification to issue securities to neighborhood investors. Jacobs's staff indentified a target number of 500 investors or fewer to participate in the CD-IPO, in order to fall under state regulatory jurisdiction (Jacobs Network contact #2, personal communication, April 2009). There were no precedents for this type of securities issuance on the state level. Offering "shares" to over 500 investors would trigger regulation by the Federal Securities and Exchange Commission (SEC), and thus make the CD-IPO tool subject to federal laws. Federal regulations would have prevented Jacobs from targeting the CD-IPO to its targeted pool of neighborhood investors, among other limitations.

Because this was a new frontier for both Jacobs and the state, it was a learning process for both sides, and they innovated through a collaborative exchange during the process, known as "groping along" (Behn, 1988). Over a five-year period, a team of residents, foundation staff, and lawyers from the Diamond neighborhoods submitted over thirty-five drafts of the Market Creek CD-IPO plan (Stuhldreher, 2007). Successive drafts of the plan were rejected, among other things, because the commercial project was not fully leased, because community entrepreneurial ventures in the center lowered the project's value, and because many of the investors did not have an annual income over $200,000 (Stuhldreher, 2007). Jacobs argued for two alternative criteria to the Department of Corporations standard financial litmus tests, including guidelines that: (1) financial qualifications to invest must be flexible enough to permit almost any resident of the Diamond Neighborhoods to invest while also limiting his or her exposure to risk, and (2) stipulated that Jacobs would screen and educate all participating investors so as to virtually guarantee that they understood the risks and potential rewards of the investment (Market Creek Partners, 2008). Eventually, the Department of Corporations agreed to approve the Market Creek CD-IPO based on a "10-10-10" rule, which allows residents to invest up to ten percent of their income, or ten percent of their net worth, up to $10,000 (Market Creek Partners, 2008). The

Market Creek CD-IPO was approved in early 2006 (Robinson, 2005). While this policy innovation may have paved the way for future alternative investment projects in California, it would be difficult to replicate because of the customization required on a state-by-state basis. In contrast, receiving this type of certification at the federal level would likely be too cumbersome.

### 3.10: City Institutional Supports for Market Creek Plaza

City-level planning tools were overlaid on the Market Creek project area, which were intended to help prioritize the project within the city for planning-related approvals and capital budget expenditures. Participation in San Diego's "Pilot Village" program and designation of the area as a Business Improvement District (BID) were two city programs that were supposed to provide benefits to developers and business owners, but in practice did not seem to significantly aid in the project's development.

In February 2004, the San Diego City Council approved a "Pilot Village" program for five neighborhood areas across the city as an incentive-driven revitalization effort. Market Creek Plaza was one pilot village. In order to qualify, pilot villages were required to meet certain smart growth principles such as one transit stop within half a mile, a mixed use development plan, and density minimums (City of San Diego, 2002). The five designated pilot villages were eligible for incentives including: (1) priorities on infrastructure upgrades or replacements; (2) deferral on collection of fees; (3) funding sources such as handicapped access, rebates on property taxes, and revolving loan funds; and (4) assistance related to policies and regulations on the undergrounding of utilities, affordable housing, and Community Development Block Grants. However, a Jacobs representative indicated to me that Jacobs was promised help from the city in the form of priority processing and priority infrastructure dollars under the Pilot Village program, but that they have not received much help on the Market Creek Project in the form of subsidies (Jacobs Network contact #1, personal communication, April 2009). In 2009, the Market Creek pilot village is the only remaining active project of the original five pilot villages because the other developments never gained the same initial momentum.

San Diego's Office of Small Business designated the Diamond neighborhoods as a Business Improvement District (BID). In San Diego, a BID works by organizing a group of neighborhood businesses through a fee assessed and collected by the City, for use promoting and improving the business area (City of San Diego). Small businesses in designated BIDs are also eligible for additional grant funding from the City, and for aid with marketing and lobbying efforts (City of San Diego). Consequently, designation as a pilot village would likely gain

Market Creek Plaza a deferral on BID fees, and since they did not receive priority on technical assistance or grants, there is essentially no net impact of these programs on the Diamond Neighborhoods.

Within the toolbox of city planning, other economic development tools such as Enterprise/Empowerment Zones or Tax Increment Financing (TIF) districts can provide possible sources of tax breaks or future revenues. Both of these tools are placed-based, similar to the application of the BID tool in San Diego. While Enterprise/Empowerment Zones often provide tax breaks to local businesses in order to incentivize inner-city or minority-owned businesses, TIFs use future gains in taxes to finance current infrastructure improvements that will presumably create those tax gains. Both of these market-driven incentives are the types of tools that Porter endorses. Because of the way the Market Creek CD-IPO directly involved neighborhood entrepreneurs and charitable groups, the structure in effect funneled its own capital directly into a placed-based economic development tool. While the Market Creek Plaza project probably would not have turned away additional market-based subsidies from city government, there is a chance that additional regulatory layers could have been a hindrance to the project. While fast-track or priority permitting programs did not work well in this case, they have proven to successfully incentivize development in other cities like Chicago and San Francisco. While the city of San Diego could have been crippled by a lack of resources, similar to many other American cities, the city itself had the most to gain by trying harder to dovetail its efforts with Jacobs's efforts in order to capitalize on the successful growth and revitalization of southeast San Diego.

## 3.11: Workforce Training and Long-Term Capacity-Building Impacts

The Market Creek project did actualize some of the Diamond neighbors' initial goals of attracting community entrepreneurs and of providing jobs in the neighborhood (Exhibit 5). During the construction phase of the project, Jacobs was able to hire 100% of contractors from the 4$^{th}$ District (which includes the Diamond Neighborhoods), 40% of which were minority or women-owned contractors (Jacobs Network #1, personal communication, April 2009). The standard practice in San Diego is to grant between 3-4% of construction contracts are granted to minority and women-owned firms (Jacobs Network #1, personal communication, April 2009); thus the Jacobs Network was able to hire from underrepresented groups at a much higher rate. In 2007, 72% of jobs at Market Creek Plaza were held by neighborhood residents and 88% of jobs were held by minority employees (Jacobs Center for Neighborhood Innovation, 2008).

Community residents are taking their vision for locally-owned businesses a step further, by working with Jacobs to create social enterprise businesses at Market Creek (Jacobs Network contact #2, personal communication, April 2009). The new Joe & Vi Jacobs Center includes space for a new social enterprise business. Jacobs Network contact #2 said, "The first floor of the center is an events and meetings space, and there is an associated cultural culinary kitchen that provides banquet services and catering. The goal for the Market Creek Events & Venues social enterprise is to have it running at a profit by 2014." Regarding the job training aspects of the project, the contact said, "The business has hired people from the community and there is capacity-building job training occurring, which should help people transition to the hospitality industry if they want to, which is the second-largest employment industry in San Diego."

| Exhibit 5: Market Creek Plaza Employment Figures, 2007 | |
|---|---|
| Number of Employers | 12 |
| Employers Providing Benefits | 6 |
| Total Jobs | 193 |
| Full-time Jobs | 77 |
| Part-time Jobs | 116 |
| Employees from Southeastern San Diego Zip Codes | 138 |
| Minority Employees | 169 |
| Percentage of Community Employment | 72% |
| Percentage of Minority Employees | 88% |
| Source: Jacobs Center for Neighborhood Innovation, 2008 | |

Overall, these job impacts are impressive in terms of the percentage of local hiring and minority representation of workers for construction and operations. However, for a neighborhood area of over 88,000 people, it would be more beneficial if there were more than 193 jobs. Also, only 50% of employers are providing benefits, and even at that percentage, it is not clear that all workers would receive benefits from employers that do provide them. Grocery stores, for example, often provide benefits to management employees but not to cashiers and baggers. Although this is not the case with the Food 4 Less grocery store that anchors the Market Creek Plaza project, where the jobs are unionized and include living wages and health care (PolicyLink - Market Creek Plaza), the point is worth noting. The effort to create a business incubator and job training space for workers in the hospitality industry is a good one, but needs to be developed further. Even if the hospitality industry is growing in San Diego, many hospitality jobs are low-wage jobs, and the hospitality market may be sensitive to economic downturns. The long-term sustainability of this type of program depends on the type of job training that is being provided and on job placement networks, among other things.

## Section 4: A Word about the Economic Downturn

Since the initial success of the Market Creek CD-IPO, the financial markets have crashed, credit markets have frozen, retail sales have slumped, and real estate has lost value. Since the model was still relatively new at the time of the financial crisis, there has not been adequate time to study the CD-IPO's impact as an asset-building investment strategy. Jacobs Network contact #2 said that the retail center is still doing well overall; though some of the retail tenants have dropped off, the dividends have not. The Food 4 Less grocery store has been able to increase sales, while the big chains such as Starbucks and Wells Fargo are still making profits. Some of the local restaurants have struggled as sales have gone down and costs have gone up, but Jacobs has been able to provide some technical assistance to businesses to help them weather the economic downturn (Jacobs Network contact #1, personal communication, April 2009). For example, Jacobs worked with a Mexican restaurant in the shopping center to offer all-you-can-eat buffets on certain nights to help keep costs affordable for residents and to get people in the door at the restaurant. Regarding this business support, Jacobs Network contact #1 said, "It is an emerging market and you must continually invest in it."

With respect to the investment vehicle, Jacobs structured the CD-IPO in an attempt to buffer the investors' losses as much as possible to mitigate risk, but residents are not able to withdraw money in the short term if the project stops producing dividends. This is unlike other asset-building savings strategies like IDAs, where participants could continue to save and match savings independent of market conditions. However, other investments such as stocks or 401(k)s are long-term investments as well and are also subject to fluctuations in the market. The question is: how are lower- or moderate-income investors positioned to withstand these fluctuations? The "10-10-10" investor qualifying rule attempted to address this question at the time of investment, but a long-range evaluation of this matter should be included in further study of the Market Creek Plaza project.

Even if the project itself is doing well, future growth of the project is not independent of market conditions that affect city and state budgets. Regarding the future development at the Village at Market Creek, it appears that the Jacobs Network groups will be on their own to fund project development, and will not be able to rely on city or state funding sources. Phase II of the Village at Market Creek project includes the development of over 800 units of affordable housing; Jacobs Network contact #1 said that it has taken seven years for the city to grant a zoning request for Phase II, which is much longer than was hoped for by Jacobs. The contact attributed this situation to the dire state of current city and state budgets and the resulting limited resources. A city planner reinforced this idea by explaining that Jacobs had applied for some state bond funding for Phase II of the project, and the funding ultimately stalled (personal communication, January 2009). The planner said that voters approved the issuance of Prop 1C bonds, which included funding for the Jacobs' project, but the state treasurer suspended the bond issuance indefinitely because of the California state budget crisis.

## Section 5: Conclusion & Lessons for Planners

The Market Creek CD-IPO model makes a distinct nod towards the free-market approach advocated by Michael Porter, because it is based on the principle of direct investment by residents as an instrument for inner-city revitalization. However, the market alone did not facilitate the vehicle for this investment, and in fact, would have prevented this type of model from developing on its own. The Jacobs Network succeeded in its entrepreneurial approach to developing the Market Creek CD-IPO because it was intentional about its desired outcomes when it created its own institutional framework, and because it innovated with the help of federal programs and state agencies throughout the process to achieve the additional supports that the project needed to survive in the free market. This result supports what Harrison and Glasmeier and Bates advocated: that community development groups and government can be the drivers of strategic market intervention that catalyzes inner-city revitalization. Economic opportunity is present in inner cities and can be harnessed by the private sector, but planners and economic developers must take an active role to shape the institutions that can channel this opportunity in more directed and socially desirable ways.

Throughout this case study I have shown how this seemingly novel model was actually constructed from elements of other existing and standard practices. Examining the institutional elements that led to the success of the Market Creek CD-IPO will allow planners to generalize this case to apply some of the ideas in other places. The next several paragraphs will reiterate some of the main ideas and tools that were built into the Market Creek CD-IPO, which can be used elsewhere by planners and economic developers.

First, Jacobs embedded grassroots community involvement throughout the planning, implementation and operations phases of the project. Jacobs solicited input from the community, not only to create buy-in, but to craft the type of project that was going to be most effective for the Diamond neighborhood community. Jacobs did not just give lip-service to "resident ownership" but built the financial and ownership structure of Market Creek Plaza to represent this value and support this outcome. Similar to job training programs like Project QUEST, Jacobs provided supportive resources to participants such as child care and meals during evening meetings, and even stipends to residents who made a large time commitment to planning and implementation of the project. These supportive resources enabled residents, who may otherwise be limited by their socioeconomic situation, to participate in the project. Also, Jacobs is currently working with neighborhood residents to develop the institutions that will manage the project once the foundation transitions out in 20 years; neighborhood-run organizations will have full ownership of the project in the future, which makes their participation throughout the project both strategic and essential. Similar to microlending programs, community involvement in the Market Creek Plaza project was parlayed into community responsibility, even an obligation, to commit to long-term investment and participation in the project. This long-term personal investment in the community is vital to neighborhood revitalization.

Secondly, Jacobs played both an entrepreneurial and a non-profit role when it took on the initial risk of the project, despite the lack of interest from mainstream financial institutions and retail tenants. Jacobs built up the project by leveraging its own resources, and thus was able to lower the element of risk as the project proceeded. Lower risk, in turn, attracted retail tenants and additional financing to the project in the later stages of development. Accordingly, the Jacobs Network assumed a long-term view of profitability expectations. Pursuit of a delayed financial return contrasts the typical valuation of risk/return and the short-term financial expectations of a standard investment, but is not out of character for philanthropic grant-making or for socially responsible investment groups (Baxter, 1996). Jacobs prioritized profit-sharing with community investors ahead of the foundation's profit gains by offering the investors a preferred return. Additionally, Jacobs structured the ownership stake in the project to value resident investor participation by assigning one vote to one person instead of distributing votes by the percentage of financial investment. Planners can learn from the way Jacobs built long-term financial sustainability into the structure of the Market Creek project.

Thirdly, Jacobs used creative secondary market sources to complete project financing. The most innovative source of secondary market financing was to utilize funds from low- and moderate-income resident investors because it also served as a community development tool to build equity within the neighborhood. The alternative criterion used to evaluate the financial suitability of neighborhood investors have been used in other programs that operate successfully in the secondary market. Similar to low- and moderate-income homeownership programs, Jacobs was able to lower the investment amount required for participation and thus lower the risk to low- and moderate-income investors. The California Department of Corporations also required financial counseling of potential investors so that they were educated about the risks, and the potential gains, which occurs similarly in IDA programs and first-time homeownership programs. Additionally, Jacobs utilized foundation support through the vehicle of Program-Related Investments, which gave it flexibility to offer a lower or slower return, or perhaps no return at all, on money invested in the project by foundations. Federal New Markets Tax Credits provided a source of low-cost gap financing that was otherwise unavailable from mainstream financial institutions because of project risk and its location in a low-income inner-city area. At sixty-four percent of project financing, this program made the project plausible. Planners should utilize sources of funding from different levels of government and different types of organization to facilitate innovations that will enhance inner city revitalization efforts.

Finally, city planners should evaluate their own programs, and try to change them if they cannot deliver on program goals. Perhaps the most disappointing part of this case study was the failure of San Diego city agencies to deliver on some of their own program incentives. While it is challenging to work within tightening budget constraints, planners must find ways to aid in creating economic development with equity, perhaps by utilizing some of the ideas presented in the Market Creek CD-IPO model.

## Bibliography


Armisted, P. J. (2005). *New Markets Tax Credits: Issues and Opportunities.* Retrieved November 2008, from Pratt Institute Center for Community and Environmental Development: http://prattcenter.net/pubs/nmtc-report.pdf

Bates, T. (1997). Response: Michael Porter's Conservative Urban Agenda Will Not Revitilize America's Inner Cities: What Will? *Economic Development Quarterly* , Vol. 11.

Baxter, C. I. (1996). Canals Where Rivers Used to Flow: The Role of Mediating Structures and Partnerships in Community Lending. *Economic Develoment Quarterly* , Vol 10, p44.

Behn, R. D. (1988). Management by Groping Along. *Journal of Policy Analysis & Management* , Vol. 7 Issue 4, p643-663, 21p.

Bystry, D. (2005, December). *Case Study from Application to Construction: Clearinghouse CDFI Puts New Marekts Tax Credits to Work.* Retrieved November 2008, from Federal Reserve Bank of San Francisco: http://frbsf.org/publications/community/review/122005/article5.pdf

*CDFI Fund - U.S. Treasury - New Markets Tax Credits Program*. (2008). Retrieved April 2009, from CDFI Fund - U.S. Treasury Web site: http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5

City of San Diego. (n.d.). *City of San Diego Business Improvement Districts.* Retrieved October 2008, from City of San Diego, Economic Development Small Business Assistance: http://www.sandiego.gov/economic-development/business-assistance/small-business/bids.shtml

City of San Diego. (2002). *Pilot Village Program and Application.* Retrieved April 2009, from City of San Diego, Department of Planning Web site: http://www.sandiego.gov/planning/genplan/pdf/pilotvillage/pvpapp.pdf

*City of San Diego. Office of Small Business Assistance in Economic Development.* (n.d.). Retrieved November 2008, from http://www.sandiego.gov/economic-development/business-assistance/

de Soto, H. (2000). *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else.* New York: Basic Books.

Gale, W. G. (2006). *Brookings Institution.* Retrieved October 2008, from Brookings Instiution Web site: http://brookings.edu/papers/2006/0711housing_gale.aspx

Green, F. (2006, April 4). *Article from San Diego Union Tribune, "Nonprofit Market Creek Plaza Offers Diamond District Residents Up to a 20% Investment Stake"*. Retrieved October 2008, from Jacobs Foundation Web site: http://www.jacobsfamilyfoundation.org/news-04-09-06.html

Harrison, B., & Glasmeier, A. K. (1997). Response: Why Business Alone Won't Redevelop the Inner City: A Friendly Critique of Michael Porter's Approach to Urban Revitilization. *Economic Development Quarterly* , Vol. 11.

Jacobs Center for Neighborhood Innovation. (2008). *2007 Social & Economic Impact Report - The Village at Market Creek.* San Diego: Jacobs Center for Neighborhood Innovation.

Jacobs Center for Neighborhood Innovation. (2006). *Own a Piece of the Block!* San Diego: Jacobs Center for Neighborhood Innovation.

*Jacobs Family Foundation - Contact Us*. (n.d.). Retrieved April 2009, from Jacobs Family Foundation Web site: http://www.jacobsfamilyfoundation.org/

*Jacobs Family Foundation - Who We Are*. (n.d.). Retrieved October 2008, from Jacobs Family Foundation Web site: http://www.jacobsfamilyfoundation.org/who.htm

Market Creek Partners. (2008). Interim Report. *CFED Asset-Building Conference.*

*Market Creek Plaza - Diamond Neighborhood*. (n.d.). Retrieved October 2008, from Market Creek Plaza Web site: http://www.marketcreek.com/mcp_diamond.html

McCulloch, H. (2006). *Building Assets While Building Communities: Expanding Savings & Investment Opportunities for Low-Income Bay Area Residents.* Retrieved October 2008, from Asset-Building Strategies; Walter and Elise Hass Fund: http://www.assetsconference.org/index1.php?view=materials

Osterman, P., & Batt, R. (1993). Employer-Centered Training for International Competativeness: Lessons from State Programs. *Journal of Policy Analysis & Management* , Summer93, Vol. 12 Issue 3, p456-477, 22p.

Osterman, P., & Lautsch, B. A. (1996, January). *Project QUEST: A Report to the Ford Foundation.* Retrieved March 2009, from Reprinted on CPN - About CPN Web Site: http://www.cpn.org/topics/work/questproject1-3.html

Ostrower, F. (2009, February). *Limited Life Foundations: Motivations, Experiences, Strategies.* Retrieved April 2009, from The Urban Institute: Center on Nonprofits and Philanthropy: http://www.urban.org/uploadedpdf/411836_limitedlifefoundations.pdf

*PolicyLink - Market Creek Plaza*. (n.d.). Retrieved April 2009, from PolicyLink Web site: http://www.policylink.org/Projects/MarketCreek/

Porter, M. (1997). New Strategies for Inner-city Economic Development. *Economic Development Quarterly* , Vol. 11.

Porter, M. (1995). The Competative Advantage of the Inner City (cover story). *Harvard Business Review* , Vol. 73.

Rapoza, B., Feighan, A., Bisson, K., & Halpern, J. (2005). *New Markets Tax Credit: A Progress Report.* Retrieved November 2008, from New Markets Tax Credit Coalition: http://www.newmarketstaxcreditcoalition.org/reportsETC/CaseStudies/05ProgressReport.pdf

Robinson, L. (2005). *Market Creek Plaza: Toward Resident Ownership of Neighborhood Change.* Oakland: PolicyLink.

Schreiner, M., Clancey, M., & Sherraden, M. (2002). *Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Savings Accounts.* Retrieved October 2008, from Washington University at St. Louis Web site: http://gwbweb.wustl.edu/csd/Publications/2002/ADDreport2002.pdf

Stuhldreher, A. (2007, Winter). *The People's IPO: Lower-income Patrons of Market Creek Plaza Can Now Invest in the Shopping Center*. Retrieved October 2008, from Stanford Social Innovation Review: http://www.ssireview.org/articles/entry/the_peoples_ipo/

*The Foundation Center-What is a program-related investment?* (2009). Retrieved May 2009, from The Foundation Center Web site: http://foundationcenter.org/getstarted/faqs/html/pri.html

*The Funder's Network - Member Profiles*. (2003). Retrieved March 2009, from The Funder's Network Web site: http://www.fundersnetwork.org/directory2784/directory_show.htm?doc_id=200117

*The New Markets Tax Credit Program: How This Incentive Can Strengthen America's Cities - Community Investments Online.* (2007, August). Retrieved February 2009, from Federal Reserve Bank of San Francisco Web site: http://www.frbsf.org/publications/community/investments/0409/newmarket.html

U.S. Census Bureau. (2000). *American Fact Finder, "Fact Sheet on San Diego City"*. Retrieved March 2009, from http://factfinder.census.gov/servlet/SAFFFacts?_event=&geo_id=16000US0666000&_geoContext=01000US%7C04000US06%7C16000US0666000&_street=&_county=san+diego&_cityTown=san+diego&_state=04000US06&_zip=&_lang=en&_sse=on&ActiveGeoDiv=&_useEV=&pctxt=fph&pgsl=160&_

*UrbanAmerica - Investment Strategy*. (2008). Retrieved March 2009, from UrbanAmerica: http://www.urbanamerica.com/invest-strategy.html