

Deserted No Longer

By Lyneir Richardson and Christina Corea

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Newark, New Jersey, is on a comeback train. With a population of just over 280,000, it is the largest city in the state, with robust transit connections, an international airport, seaport, and two of the state's largest cultural destinations, the Prudential Center and New Jersey Performing Arts Center. However, like many big American cities, Newark experienced a population decline of 160,000 residents and a concomitant lack of investment during the last half of the 20th century. The mission of Mayor Cory Booker, first elected in 2006, has been that Newark would set a national standard for urban transformation.

ECONOMIC DEVELOPMENT ORGANIZATION FORMED

One early action of the mayor and the Municipal Council was to form Brick City Development Corporation (BCDC) as Newark's primary economic development catalyst to retain, attract, and grow businesses; enhance small and minority business capacity; and spur real estate development. BCDC is Newark's EDC, an independent non-profit corporation with a contract to provide economic development services to the city. The organization structure was modeled on EDCs that existed in Baltimore, Detroit, St. Louis, and elsewhere.

A team of committed BCDC professionals, mainly recruited from the private sector, has worked side-by-side with officials from City Hall to lead Newark's revitalization efforts. In the last three years, there has been over \$1.5 billion of announced investment in the city. More importantly, construction is actually underway. Recent ground-breakings, ribbon cuttings, and lease signings are creating over 2,500 new permanent jobs and as many, or more, construction jobs.



The new Food Depot supermarket in Newark is an \$8 million project that was funded in part with a loan from the Brick City Development Corporation (BCDC)/Urban Enterprise Zone Loan Fund, which is part of the Supermarket Initiative of BCDC's Fresh Foods Program.

These business attraction successes and real estate development activity have occurred in the larger context of rebuilding the city's image as a productive place. Even when the deep national recessionary years of 2008-2010 applied the brakes to growth efforts around the country, the city still managed to make its way for the first time onto the list of the nation's top 10 emerging markets, according to *Real Estate Forum*.

PIPELINE TO FINISH LINE

BCDC created and implemented a strategy that helped to jump-start the surge in development activity in the city, called "Pipeline to Finish Line" (PTFL). Moving projects "from the pipeline through to the finish line" became a battle cry and operating mantra for our efforts to make economic development happen in the city. PTFL established the foundation for decision making regarding which projects received priority attention from the economic development team. The strategy also

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Brick City Development Corporation (BCDC), the economic development catalyst for the city of Newark, New Jersey, recently won the Gold Excellence Award from the International Economic Development Council. This award was given to BCDC for its role in bringing the 31,000 SF Food Depot supermarket to Newark, the first new full-service supermarket developed in the city's Central Ward in 22 years. Three new grocery stores are now open in Newark as a result of BCDC's financing and deal structuring approaches. BCDC is addressing Newark's "food desert" and "food swamp" challenges by utilizing new strategies to promote access to healthy food options.



Food Depot Supermarket, located at 75 First Street, in Newark's Central Ward.

provided a framework as we analyzed and advocated for loan and investment incentives for projects with high potential impact when development was actualized.

BCDC started the process by assessing in detail over 30 development proposals. We considered developer capacity, reviewed the pro forma assumptions in each project and determined if we could actually get a project to construction start, or get stalled projects to construction completion, by concentrating the use of available economic development dollars, resources, talent, and tools. We focused first on deals that could actually make it to the "Finish Line" within a 12-24 month period of time. If you take a quick ride around Newark today, you will now see the results of our PTFL efforts, which helped catalyze the construction of:

- A new office tower that will be anchored by the North American headquarters for the Panasonic Corporation (the first new ground up office tower built in the city in two decades);
- A new Marriott Hotel and a Hotel Indigo (the first new hotels built in the city in 38 years);
- Teachers Village, an innovative project designed by noted architect Richard Meier, that includes three new charter schools, new residential units and retail;
- The renovation and expansion of a cool urban movie theater (invested in by Goldman Sachs and NBA legend Shaquille O'Neal);
- A regional distribution facility for over 500 Starbucks stores;
- A Wakefern Corporation warehouse, distributing fresh produce to Shoprite stores from Boston to Buffalo; and

- A manufacturing home for Manischewitz, a leading producer of kosher products.

We are no longer just cheerleaders for development in the city, but now are also tour guides for these important developments which provide the foundation for a new generation of projects. Since these first projects opened, significant development announcements to refill the pipeline include new office buildings for Prudential Financial and Cablevision and significant new downtown residential, including new lofts attracting professionals and students.

Critical to supporting new development is the question about how to simultaneously utilize the tools from the PTFL approach in order to serve local residents in need of more nutritious food options. BCDC applied the same consistent rigor and analytical approach to the food store projects that are now open which it had previously applied to the larger development projects that broke ground.

FOOD ACCESS

In addition to evaluating what healthy food options can serve the new workers and residents who are anticipated to move into the city, the issue BCDC sought to solve with its Fresh Foods Program was how to provide new food-buying options for residents across Newark's wards that had experienced a lack of nutritious options for decades. Like sister cities across the country, many of Newark's neighborhoods had a dual problem: "food deserts," where there is limited access to fresh food for sale at an affordable price within walking distance of residents; and "food swamps," an overabundance of fast food establishments and junk food outlets on seemingly every corner.

Studies show that the lack of access to healthy food adversely affects the ability of low-income families to maintain healthy lifestyles and hampers educational

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Food Depot, a 31,000 SF supermarket, is the first to open in Newark's Central Ward in over 20 years.

The Fresh Food Program initially focused on renovating corner stores. We identified four strategically located small corner stores (generally between 500 to 5,000 SF) in each ward of the city. The plan called for us to provide small incentive grants and technical assistance to store owners. In exchange, our grant agreement required the store owners to agree to offer more fresh foods in their stores and/or to display fresh food items more prominently for a two-year period.

advances among urban school children. For example, Rutgers University's New Jersey Childhood Obesity Study showed that 44 percent of Newark children were overweight or obese, and that compared to national data, more Newark children fall into either the overweight, obese or very obese categories.

In addition to providing fresh food to improve residents' health, BCDC looked at the value proposition being offered to retailers who could potentially locate here. While updating the Newark Master Plan, BCDC discovered that up to 38 percent of the money that Newark residents spend on groceries is purchased outside of the city. Even more eye opening was a report by Advance Publications newspapers of supermarket prices in 11 metropolitan areas, showing that Newark's prices were among the highest.

For Newark residents' health, wealth, and vitality, it became clear that BCDC should work to build a food system that would promote both access to healthy food and affordability of fresh food options. In 2010, we launched a Fresh Food Program with two straightforward goals:

1. Provide assistance to three to five existing corner stores so that they could provide more fresh food options, and
2. Enable three to five new neighborhood grocery stores to open.

We learned in benchmarking successes in other cities that new and redeveloped food stores often bolster neighborhood revitalization efforts. Productive grocery stores boost a city's tax base, typically create 20-80 new jobs, and act as an anchor to drive traffic to existing retail.

MAKING CORNER STORES BETTER

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as easy for a kid to buy an apple or carrot as it is to buy a Snicker's candy bar or a bag of potato chips.

BCDC received approval from the city to allocate a total of \$200,000 in grant funding for the Fresh Food Program and once this funding was secured, we began to offer small grants. The grants were approximately \$45,000 to \$65,000 per store, enabling store owners to undertake store improvements necessary for the sale of fresh food.

The grant money was used for equipment purchases such as new cash registers (with integrated software and food scales so that produce could be sold by weight) and refrigeration coolers to attractively display and preserve perishable food items. The money was also used for façade improvement, signage, layout, operational changes, and other costs associated with purchasing, storing, and selling fresh fruits and vegetables. (Food Plaza was the first store completed. See the Youtube video at the following link: www.youtube.com/watch?v=AS-!HWVnc14)

DOING THE HOMEWORK ON GROCERY STORES

After helping a few existing small stores expand and build capacity to carry fresh fruits and vegetables, BCDC next turned to the goal of getting new grocery stores to open in Newark. There was demand for bigger stores, but this had to be proven. Methodically, a three-person BCDC team started working to understand the available real estate in Newark and develop an inventory of grocery store sites.

We began to look at things through the lens of a grocery store site selector instead of an economic development entity working on behalf of a city. With this view, it was important to talk with grocery store operators to understand what factors were most important for a productive and profitable urban grocer. BCDC commissioned market research, analyzed underserved trade areas, and looked for vacant land or underutilized property in those trade areas.

Staff drove around the city and selected sites that were a suitable distance from existing grocery stores to create a healthy competitive environment. This led us to identify nine high potential grocery store development sites that had the requisite size, visibility, access, and parking. These sites stood a chance of getting a green



Located at 84 Bloomfield Avenue, Food Plaza is one of the neighborhood stores that BCDC provided with refrigeration and point of sales equipment through our Small Grocers Program.



Food Plaza is one of the neighborhood stores that participated in the Small Grocers Program.

light from a cynical, profit-focused national chain real estate committee.

In the process, we discovered, unfortunately, that none of the sites were owned or controlled by the city of Newark. In some instances, the property owners were enthusiastic about a grocery store development concept, but others were not really interested in working with us for one reason or another. We would have to persuade and could not demand. BCDC knew from its PTFL work that it would be most expedient to work closely with a “coalition of the willing.” Consequently, we eliminated a few good grocery store sites where the property owners had unreasonable valuation expectations or a development vision that would not accommodate a grocery store in our community.

BCDC staff then took the show on the road and began to market the sites at national and regional retail trade shows organized by the International Council of Shopping Centers. We discussed our sites with grocery store chain operators directly, as well as retail brokers and developers. We spoke on panels, networked at grocery store industry meetings, and generated press to bring attention to the fact that there was opportunity for new grocery store development in Newark.

The organization started to build relationships with site selectors and brokers representing the big national supermarket chains, such as Shoprite and Whole Foods. BCDC also talked to Walmart, Sav-A-Lot, and ALDI in order to understand the pros and cons of the role that each respective organization could play in bringing groceries to our city. We even imagined the surprise if we were able to attract Trader Joe’s or convince Whole Foods to be the dream prom date for Newark.

Interest was generated. Seeds were planted. Tours were given. Mayor Booker started tweeting and texting Whole Foods CEO John Mackey. Even with all of this activity, we accepted the fact that it was going to be a longer process to get a “yes” from a national chain. None of our sites were “100 percent locations” from the stores’ perspectives at that time. After about six months of diligent work, we knew that attracting national grocery store chains to Newark, while clearly important, would take



Shortly after Food Depot opened, BCDC provided a \$300,000 subordinated loan for Seabra Foods, another new independent grocery store in Newark. The store is expected to create 55 jobs.

time. But in our urgent effort to get a new grocery store underway, we stumbled upon a more immediate niche for Newark.

THE INDEPENDENT GROCERY STORE AND SUPPLIER

A broker from CBRE Group Inc. coordinated a meeting for BCDC to make a presentation to the National Supermarket Association (NSA). The NSA is a trade association representing approximately 400 independent supermarket owners. Many of the owners started small grocery stores in New York’s low-income neighborhoods. According to William Rodriguez, president of the NSA, “We have heard Richardson’s pitch and believe that there is opportunity in Newark for independent grocery store chains as well as big chain store operators.”

The NSA scheduled a tour for its members to visit Newark and see our grocery store sites. These entrepreneurial independent operators were motivated. They could smell opportunity. They were ready to do a deal, now. Once again, we were working with corner store owners. Only this time we would build new and bigger full service stores.

We also learned at this time that grocery store wholesalers were very influential in the success of independent grocery stores. We met with representatives of Krasdale, one of the large privately-held grocery store wholesalers, and learned how they sold inventory, extended credit, and provided strategic marketing and operating advice to independent supermarket owners in our region. Krasdale’s stated aim is “to be the equivalent of a corporate chain headquarters to the independent supermarket owners.”

We soon found out that a local entrepreneur owned a store in another city in New Jersey that was being supplied by Krasdale. The entrepreneur had a business plan for a new store in Newark that benchmarked a successful model from other urban grocery stores. His team had experience in the supermarket business, as well as knowledge of construction and real estate development. He had already contracted to purchase a run-down yellow building in Newark that at the time was home to a former flea market.

His plan called for the opening of an attractive 31,000 SF supermarket to anchor the revitalization of a key corner on a visible commercial corridor. The Food Depot would be the first new full service grocery store to open in the city's Central Ward in over two decades.

The Food Depot store promised clean, well-lit and open spaces for shopping. It would have grocery selections that would cater to the ethnic makeup of the neighborhood and ten checkout lines for fast customer service. The pre-prepared hot foods section in the store would have seating for customers to eat in the store. And with an over 8,000 SF fresh foods section, customers would be able to take advantage of a plentiful selection of fruits, vegetables, and a full service freshly cut meat and seafood counter. It was exactly what the neighborhood wanted and needed.

The total project cost was approximately \$8 million. The developer/operator worked with a local commercial bank which agreed to provide a loan of 65 percent of the project costs. The developer had cash to invest 10 percent of the project cost and asked if BCDC could help bring the project to fruition and "close the gap." He spoke with local elected officials, urging them to support his project. He specifically requested that we structure a multi-million dollar TIF (tax increment financing) and/or that the city issue a bond to financially support his store opening.

The developer also requested a long-term tax abatement. He wanted us to help identify New Market Tax Credits that could support the project. The developer was aggressive and had an "it can't hurt to ask" attitude.

BCDC concluded that all of these programs could indeed be possible subsidy sources for the project; however, the significant transaction related legal, consulting, and administrative costs would be difficult to absorb in such a small project. Equally important, the owner needed to close on his contract for the property acquisition within 90 days, and we knew that it would be a challenge to meet this deadline with a complicated deal structure.

So instead, we tapped our BCDC/Urban Enterprise Zone Loan Fund to act as a first mover and made a commitment to provide \$2 million subordinate debt financing to the developers of the project. BCDC also advocated for a tax abatement and helped get the project through the building permitting process.

Though the project structure was not complex, BCDC was able to expediently fill the financing gap and leverage the private sector investment of the developer and

the bank. Once again, BCDC was able to utilize a straight forward reality-based approach to getting a deal done. It is not always efficient or necessary to have multiple layers of financing and complicated deal structures. The strategy was not sexy and complex but it was potent and effective.

WORKFORCE

In connection with financing new grocery stores, we were also cognizant of the fact that economic development and workforce development are inextricably connected, as our partner at the Newark Workforce Investment Board (NWIB) notes frequently. Accordingly, we negotiated "first source" hiring provisions into our loan agreement, stipulating that the borrower must interview

Newark residents first for a five-day period of time. We also successfully applied for a grant from the Victoria Foundation to create a resident job training program at various supermarkets and small grocers in the city.

We worked closely with the NWIB. In the case of Food Depot, the local Urban League and NWIB assisted in preparing candidates for employment consideration, vetting resumes, coordinating drug testing, and acting as a liaison between the developer and

the job seekers. As a result of this work, over 100 Newark residents received 40 hours of training in customer service, retail skills, and general job readiness. The fact that over 30 residents were hired for full and part time positions is a win for the city.

The Victoria Foundation grant that BCDC received was dedicated to reducing the store operators' costs of training local candidates. We dedicated a portion of the Victoria Foundation grant to better understand how to get residents management positions in new grocery stores and recently completed an assessment to understand the position descriptions and the training needs of four grocery stores currently operating in the city.

RESULTS

Food Depot cut its ribbon for a grand opening on February 28, 2012 and is achieving its revenue projections. It is a nice new anchor and serves as the first new full service grocery store in over 20 years in the central ward of our city.

Shortly after Food Depot opened, BCDC provided a \$300,000 subordinated loan for another new independent grocery store in Newark, Seabra Foods, expected to create 55 jobs. Like Food Depot, Seabra was an adaptive



Mayor Cory A. Booker, members of the Newark Municipal Council, and other dignitaries at the Food Depot Ribbon Cutting on February 28, 2012.

reuse project completed by a businessman who operated other urban and ethnic grocery stores in Newark and surrounding areas.

The entrepreneurs converted an obsolete one-story office building into a 26,000 SF grocery store with large fresh meat and produce sections. In addition to fresh food, Seabra also has a built-in coffee café with a bar, flat screen television, and sofas and tables for reading, working, and relaxing. This grocery store is a community asset in various ways.

A third store, Key Foods, opened in December 2012 and is expected to create 35 jobs.

OBSERVATIONS

The supermarket attraction tools were somewhat unique to Newark's landscape but replicable in other cities:

- Look to regional and independent grocery store operators and suppliers instead of targeting national or name-brand operators.
- Work closely with developers and operators on site control issues, assisting them with entitlements and permitting and analyzing potential financial incentives to fill pro forma gaps.
- Subordinate loans equal to 15-25 percent of the project cost are a potent tool to jump start development. Provide gap financing, not gorge financing and get the project started.
- The direct benefits of new grocery stores are obvious: increasing fresh foods access, job creation, tax ratable, and the fact that they are commercial retail anchors and community assets.

Interestingly, BCDC now has real interest from the national supermarket operators. Mayor Booker recently mentioned that Whole Foods has identified one or more sites of interest. Shoprite, Walmart, and Sav-A-Lot are in the due diligence stages of locking in on locations in the city. Therefore, the hope is that one or more of these national grocery operators may open new stores in the next 12-18 months.

- There are important indirect benefits, as well. For example, residents save money (and reduce their carbon footprint) because they no longer need to travel as far for food. Grocery stores also catalyze other new development.

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Instead of using a caravan, BCDC found a way out of its food desert through patience, relationship-building, operator research, targeted subsidy programs, and above all, a sense of humor. ☺



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