

**Double Bottom Line Real Estate Equity:  
A Good Funding Source For New Century City Projects?**

**Sean Sacks  
11.947  
New Century Cities Seminar**

## INTRODUCTION TO DOUBLE BOTTOM LINE

The current mode of private real estate in the United States does not lend itself to the early and rapid adoption of the New Century Cities model. Emphasis in private real estate development, both from developers and from funding sources such as banks and equity partners, is primarily on short-term financial returns and cookie cutter real estate products. This paper seeks to investigate the feasibility of the double bottom equity market as an alternative funding source for New Century City real estate projects, one that allows for longer-term profit horizons and incorporates additional return parameters outside of financial returns that can be captured, quantified, and compared.

The double bottom line concept is centered on the idea of investing capital resources not only to produce acceptable financial returns but also to produce measurable social returns. Investors, whether pension funds, business associations, or high net worth individuals are willing to forgo a higher potential financial return for the knowledge that they are producing positive social change with potentially lower risk. This paper seeks to accomplish three goals. First, it will provide a short survey of the current state of the double bottom line real estate landscape with a strong focus on equity funds. Second, it will explore how the current double bottom line equity social value framework might be adapted to encompass New Century City social value metrics. Lastly, East Cambridge, north of MIT, will be analyzed as a possible location for a New Century City double bottom real estate equity fund investment.

## SHORT SURVEY OF DOUBLE BOTTOM LINE REAL ESTATE EQUITY MARKET

According the Research Initiative on Social Entrepreneurship (RISE) at Columbia Business School, the overall double bottom line capital market as of 2003 comprises at least 59 funds with over \$2.6 billion under management.<sup>1</sup> These

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<sup>1</sup> RISE CAPITAL MARKET REPORT: The Double Bottom Line Private Equity Landscape in 2002–2003

double bottom line funds are not charity or foundation funds. The two figures below illustrate the expected and actual IRRs of 48 funds surveyed in the RISE report. A significant majority expected and many actually realized IRRs above the single digits.

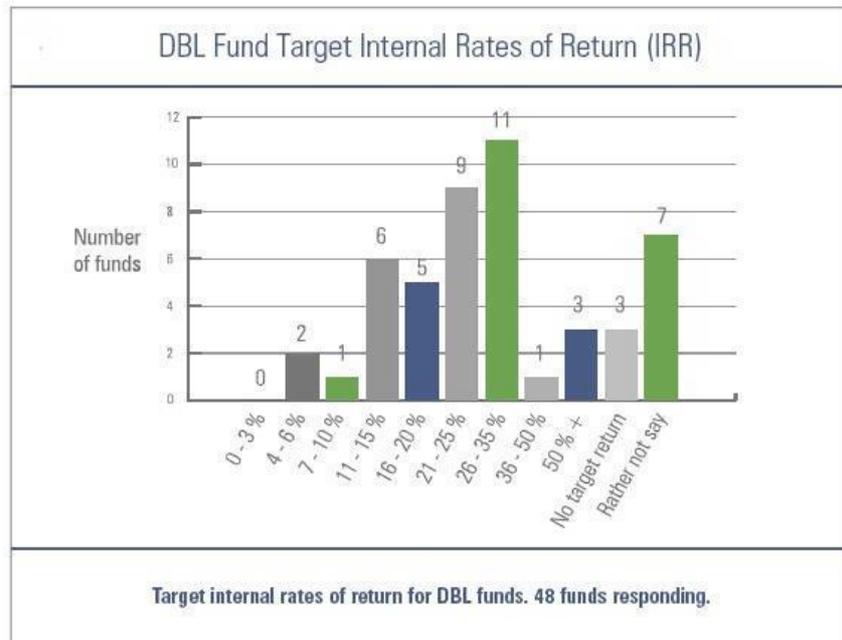


Figure 1: DBL Funds Target IRRs

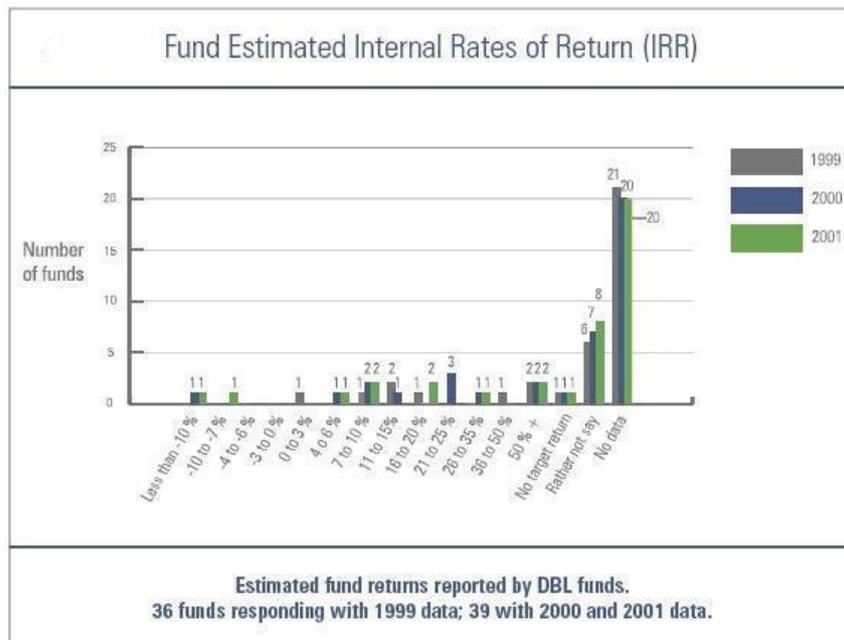


Figure 2: DBL Funds Estimated IRRs

In the last five years, there has been the recent emergence of double bottom line real estate equity funds that focus primarily on real estate as a mechanism to realize both financial and social goals. For example, The Bay Area Smart Growth Fund, considered a pioneer in this space, was only founded in 2002. While many of the initial DBL real estate funds have been based in California, new ones have been announced for New Mexico and Florida.<sup>2</sup> Other funds are being strongly considered for Boston and St. Louis.

***Highlight on Bay Area Smart Growth Fund***

- Sponsored by Bay Area Council of top 275 businesses
- Expected financial returns of mid to high teens
- Chartered to invest in retail, office, commercial, industrial, multi-family and select single-family housing opportunities that may make a measurable impact on the economic and social revitalization of neighborhoods in the 46 targeted communities in the San Francisco Bay Area.

While DBL funds focused on other sectors average \$25 million in size, the DBL real estate equity funds are not small. Many of the California regionally focused real estate funds have raised \$100 million of private equity. Once levered with debt and other state and national incentives such as tax credits, this private equity has the potential to spur a lot of development in typically neglected or overlooked markets.

While this potential is very exciting in its own right to help revitalize downtrodden and neglected neighborhoods, the questions remains how can DBL real estate equity funds be created or extended to leverage and incentivize new types of emerging social value in New Century City model.

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<sup>2</sup> Fund typically take two forms. One form is \$100 million plus national funds created by established real estate investment fund companies such as Urban America LLP and Canyon Johnson Urban Development Fund. The second form with a more deliberate social mission is the regional funds such as Bay Area Smart Growth, San Diego Smart Growth Fund, and the Genesis L.A. Real Estate Funds. These funds typically have a non-profit fund sponsor which contracts with a for-profit investment fund manager.

## SOCIAL VALUE INDICATORS IN A NEW CENTURY CITY

The most common social objectives and indicators seen today in double bottom line equity funds revolve around six primary themes; affordable housing, transportation, crime reduction, job creation, community and residential services, and office space.<sup>3</sup>

### **Typical social objectives for current DBL real estate projects**

**(Source: LISC Bay Area)**

<b>Objective</b>	<b>Metric</b>	<b>Target (Examples)</b>	<b>Tracking Method</b>
Affordable Housing	Rent or mortgage as a percentage of area median income	At least 20% of units should remain occupied and affordable to families earning 60% of Area Median Income	Comparison of rents and mortgage rates to census data and income statistics published by organizations such as HUD
Transportation	Percentage of residents riding public transportation to work	30% of area households have at least one member whose primary work transportation method is public transit	- Census data - Number of monthly transit passes purchased - Use of services like Zipcar
Crime Reduction	Number of violent crimes and incarcerations	10% reduction in violent crimes and 15% reduction in incarcerations.	- Police data - Prison data
Job Creation	Net new jobs provided by businesses leasing space.	Space leased/sold to businesses that generate at least 25 net new jobs	- New employee information forms - Business surveys
Community Services	Percentage of new tenants that provide services previously unavailable in the community	At least 30% of tenants will provide a service identified as lacking in the community	Community needs assessment surveys minimum every three years
Office space	Percent by which rents for nonprofit and new small business tenants are below market rents for the area	Spaces will be leased to nonprofits providing services to project residents and other community members at at least 20% below the prevailing rent for comparable space in the area	Annual area rent study

If real estate projects can meet all or some of these objectives they have much higher likelihood of receiving more patience and more flexible funding from

<sup>3</sup> One of the best matrices (and primary reference for this matrix) for tracking social objectives for commercial real estate comes from LISC San Francisco Bay Area. Please see the reference section for details on their website

sources such as DBL funds and other government programs such as Low Income tax credits (LIHTC), New Market tax credits, and below market debt loans. Yes, while these indicators are noble and provide a positive framework to advance social progress and value, it is arguable that they address some of the root causes of social inequity, promote other forms of social value creation in all income brackets, and account for emerging trends in lifestyle, workstyle, learnstyle, and playstyle. A couple of illustrative trends are wages more highly correlated to education levels<sup>4</sup>, people working and learning more distributed and collaboratively, and the desperate need to upgrade outdated public and street-level infrastructure. Lastly, while some of the social targets create value that can also be partly captured by real estate developers in the form of higher rents and additional chargeable service, many do not allow additional value capture and only create incentives via funding sources and facilitated permitting.

New Century Cities (NCC) type of development projects provide a unique opportunity to forward emerging social objective indicators while promoting new partnerships that allow for the creation of social value (including some new types). Certain types of technology and clustering of people, businesses, and community resources can create new value similar to the way that mall owners can best maximize the value for tenants through cross-pollination and complimentary services.<sup>5</sup> While real estate developers may or may not choose to capitalize themselves, it is believed that new space requirements and space based services are emerging that can be leased or purchased by individuals and communities in addition to traditional real estate rent or sales.

The matrix on the following page explores some possible NCC social value indicators and detail ways that these metrics can be measured and therefore be

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<sup>4</sup> Levy, Frank and Murnane, Richard. *The New Division of Labor*. (Princeton, USA: Princeton University Press, 2004)

<sup>5</sup> Eppli, Mark J. and James D. Shilling. "Large Scale Shopping Center Development Opportunities", *Land Economics*, February 1995, Vol. 71 Issue 1, pages 35-41.

potentially quantified or “priced” accordingly. The series of social value indicators are ordered top to bottom from most easy to quantify to those that are perhaps more abstract and possibly more controversial to privacy advocates. The goal is not to spur a privacy debate but to forward additional ways to consider improved or new services, enhanced safety, and reduced maintenance for neighborhoods and their residents.

### New social objectives for emerging NCC real estate projects

Objective	Metric	Target (Examples)	Tracking Method
Connectivity	Percentage of residents and businesses with high speed internet hookups and percentage of development with wireless access	100% of new homes have fiber data hookups and 75% of public spaces and open spaces have high speed wireless signal	Mandatory fiber cabling to each residential unit and wireless “audits”
Intelligent Infrastructure	Percentage of infrastructure and building systems that can be automatically monitored and addressed	25% of lighting, trash receptacles, traffic signaling, and parking lots contain sensor and monitoring capability that can reduce unnecessary maintenance visits while allowing for intelligent traffic flow and parking	<ul style="list-style-type: none"> <li>- Parking audits</li> <li>- GIS data</li> <li>- Building systems audit</li> </ul>
Knowledge Creation	Percentage of residents with access to computer based training coupled with teacher taught classes at nearby institution	100% of NCC neighborhood residents have free access to computer based training (CBT) courses similar to MIT’s OpenCourseWare coupled with actual teacher taught classes at nearby institution. Goal of 30% participation.	<ul style="list-style-type: none"> <li>- CBT download and completion rates</li> <li>- Class participation rates</li> </ul>
Work space	Percent by which rents for nonprofit and new small business tenants are below market rents for the area	Creation of flexible pay-as-you-go offices and work spaces that cost 20% less than month to month leases and allow non-profit entities to cluster in one building	Annual rent surveys
Community	Number of new	At least 2 new technology enabled	Community needs assessment

Services	technology enabled community services previously unavailable in the community	community services introduced such as I-Neighbors <sup>6</sup> or digital community bulletin boards	surveys minimum every three years
Crime Reduction and Fire Costs	Percentage of violent crime and false fire alarms reduced by digital cameras and wireless alert devices	50% of children and elderly wear personally activated wireless safety bracelets. 100% of fire alarm pulls include a monitoring camera	- Police data - Fire data

The first objective, high-speed **connectivity** goes straight to the notion of the digital divide and shift to an information based economy. Countries like South Korea that enjoys an 80% plus household penetration rate and 23 broadband connections per 100 people (the US has eight and Australia just four) have quickly realized that the Internet and high-speed connectivity help them to challenge Japan and the US for IT supremacy. In a knowledge economy, access to information and technology is a direct link to economic success.<sup>7</sup>

**Intelligent infrastructure** may be more expensive upfront but in the medium to longer term should realize much lower maintenance and transportation costs. It may only start in one NCC neighborhood or project but might quickly spread through “best practice” adoption. The old adage that time is money could never be truer with this indicator. Intelligent infrastructure should cut down on the length and number of maintenance visits as well as the time an individual might have to search for a parking spot or sit in unnecessary traffic.

**Knowledge creation and skills training** via computer-based training integrated with actual teacher taught classes for community residents will be easier to accomplish in NCC location with their usual close proximity to higher learning

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<sup>6</sup> [I-Neighbors.org](http://I-Neighbors.org)

is a free service for internet based neighborhood communication and resource sharing by zipcode. Individual services include community directories, community events, polls, and carpooling.

<sup>7</sup> PhD thesis such as Sherry Simms at Graduate University of Claremont have attempted to quantify across cultures while researchers such as Manuel Castells and William Mitchell have also investigated the spatial forms of the “new economy”

institutions. The MIT Singapore program with its distance learning technology and combined one semester onsite combination has been extremely successful and could act as a role model for a similar program to the nearby neighborhoods of NCC institutions. Different students learn differently, but the combination of both teaching methods together might help provide the most cost-effective and realistic means to help educate residents in NCC neighborhoods on a mass scale for in-demand employment skills.

While outstanding free neighborhood community portal sites are emerging such as Keith Hampton's I-Neighbors there exist even more possibilities with individual building level electronic bulletin boards that everyone can see on their way to work or shopping. Street viewable digital signage for residents on political news or community events is another possible **digitally based community service**.

Flexible **neighborhood work centers** allow emerging small businesses and non-profits to only rent and use the space they need on an hourly or daily basis. Individual artisans or teachers such as language teachers or yoga teachers are not limited by time, space, and technology constraints of typical community centers and traditional leases.

The last of these initial sets of NCC social indicators is violent crime and fire alarm indicators. One of the biggest issues with violent crime is that the police cannot target where and when crimes are occurring. GPS enabled **wireless safety bracelets** alert police to exact scenes of the crime and make it easy for vulnerable citizens to contact police without dialing 911 and having to detail location information. Wireless cameras<sup>8</sup> connected to fire alarm pulls should

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<sup>8</sup> Last month, retailers such as CompUSA and Radio Shack, began selling a new \$280 Motorola home monitoring system that includes one wireless camera and a communication device that plugs into a home broadband connection. The same system, designed for reasonably tech-savvy buyers to set up themselves, can be expanded with temperature, motion, and leaking-water detectors, and configured to send a text message to a cellphone warning the owner that, for example, the front door has been opened or the basement is wet.

greatly reduce expensive false alarms and help the fire department immediately get another eye on the fire scene once the alarm initiates.<sup>9</sup>

### EAST CAMBRIDGE NCC DOUBLE BOTTOM REAL ESTATE EQUITY FUND INVESTMENT

The East Cambridge area provides an interesting backdrop to hypothesize how a NCC DBL real estate equity fund might invest and what the likely partnerships might be. The initial projects here in the US, like the early ones overseas, will be more reliant on deep public-private partnerships and some public investment. The figure below illustrates the large economic divide and high percentage of low-income Cambridge residents in the surrounding neighborhoods of MIT. As manufacturing jobs have dried up, so have high quality employment opportunities for those less skilled and prepared for information age jobs.

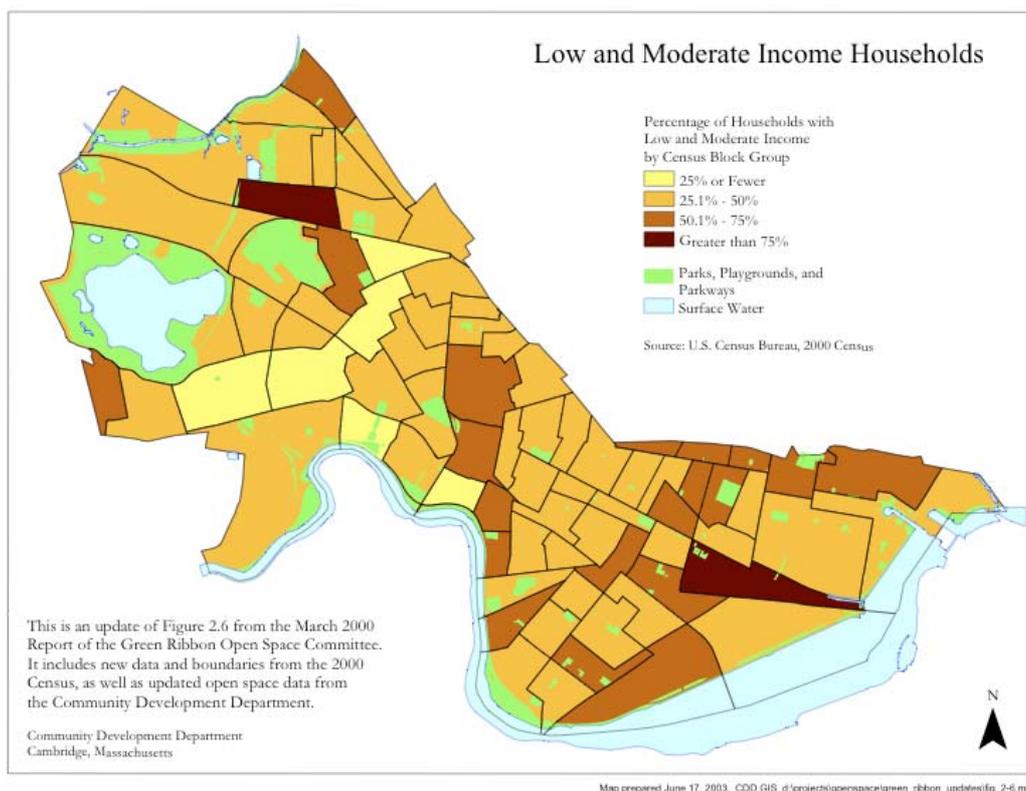


Figure 3: Percentage of Low and Moderate Income Households in Cambridge in 2000

<sup>9</sup> For example, the LAPD list the percentage of false fire and burglar alarms in the low to mid 90s.

It is surmised that initial investors in the fund will likely be technology minded yet have an overall interest in social growth and improving urban living through high quality real estate. People like Michael Dell, Bill Gates, Pierre Omidyar, and Gordon Moore<sup>10</sup> are just a handful of the wealthy ICT individuals here in the US that would likely be interested in realizing a decent financial return on their dollar while progressing social growth. These projects also allow ICT companies to engage in high quality collaborative research partnering with MIT and the nearby community. HP and the UK government have shown this three-tiered partnership to be very successful with the Mobile Bristol project.<sup>11</sup>

If communities see the value for their citizens they are much more likely to be willing to act as a test-bed for new products and services. In a NCC DBL project, the East Cambridge community now would have a well-understood mechanism and set of programs to integrate with their location institution. MIT benefits from better “town gown” relationships as well as helps to nurture future students and employees from Cambridge.

Last but not least is the private developer. Without developer expertise and funding nothing ultimately gets built. However, progressive real estate developers should be drawn to DBL funding and criteria because of three important financial factors outside of just “feel good” social benefit.

- Patience capital allows developers to better internalize medium and long term financial returns inherent in NCC projects.
- DBL funding formalizes institutional and community partnerships that help to reduce risk and approval timeframes by a holistic approach to neighborhood development and shorter permitting horizons.
- DBL funds facilitate the creation of new space based services that entrepreneurial developers can add to their services portfolio.

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<sup>10</sup> The 11/29/04 Issue of BusinessWeek ranks the 2000-2004 top givers. The lowest given or pledged from these four individuals was \$351 million.

## **New Century City Double Bottom Line Fund References**

### Articles and Books:

Eppli, Mark J. and James D. Shilling. "Large Scale Shopping Center Development Opportunities", Land Economics, February 1995, Vol. 71 Issue 1, pages 35-41.

Leinberger, Christopher B. "Building for the Long Term", Urban Land Magazine (ULI), Nov/Dec 2003.

Levy, Frank and Murnane, Richard. The New Division of Labor. (Princeton, USA: Princeton University Press, 2004)

"Workplace Heaven? The Management Today Workplace Survey", Management Today, June 2003.

### Reports:

RISE CAPITAL MARKET REPORT: The Double Bottom Line Private Equity Landscape in 2002–2003.

SROI Methodology published by REDF in 2000. <http://www.redf.org/>

### Figures:

Figure 1 RISE CAPITAL MARKET REPORT: The Double Bottom Line Private Equity Landscape in 2002–2003, page 28.

Figure 2 ibid, page 29.

Figure 3: Percentage of Low and Moderate Income Households in Cambridge in 2000 published by City of Cambridge GIS Department

### Resources:

UrbanAmerica LP  
<http://www.urbanamerica.com/>

Canyon-Johnson Urban fund  
<http://www.johnsondevelopmentcorp.com/canyon/>

Bay Area Smart Growth Fund

<http://www.basgf.com/>

Nehemiah Sacramento Valley Fund

[http://www.nehemiahcorp.org/pr/pr\\_011503.htm](http://www.nehemiahcorp.org/pr/pr_011503.htm)

Southern California Smart Growth Fund

<http://www.insurance.ca.gov/COIN/Bulletins/Bulletin53.htm>

American Ventures New Mexico and Florida funds

<http://www.newurbannews.com/FundsSep04.html>

Portland Family of Funds

<http://www.portlandfunds.com>

Research Initiative on Social Entrepreneurship

<http://www.riseproject.org/>

Blended Value

<http://www.blendedvalue.org>

Chris Leinberger

<http://www.cleinberger.com/>

Local Initiatives Support Corporation (LISC)

<http://www.lisc.org/>

SmartMobs

<http://www.smartmobs.com/>

Mobile Bristol

<http://www.mobilebristol.com/>

Anthony Townsend Blog

<http://urban.blogs.com/>