

Reinvestment BRIEF



Capital at the point of impact.

The Reinvestment Fund

The Reinvestment Fund is a leading innovator in the financing of neighborhood and economic revitalization. Central to its mission is a commitment to put capital and private initiative to work for the public good. TRF is a development finance corporation with a wealth-building agenda for low- and moderate-income people and places through the strategic use of capital, knowledge and innovation. TRF manages \$490 million in assets from 840 investors. It uses these assets to finance housing, community facilities, businesses, renewable energy projects and public policy research.

Brown's ShopRite

Founded in 1988 as a single grocery store in Philadelphia by CEO Jeff Brown, Brown's ShopRite has greatly expanded since 1995 through southeastern Pennsylvania and southern New Jersey. Brown's ShopRite operates ten stores and is currently constructing its eleventh store.

Using the Federal New Markets Tax Credit Program and Pennsylvania's Fresh Food Financing Initiative, TRF has supported store construction or upgrades for several Brown's ShopRite supermarkets.

Access to Supermarkets in Inner-City Communities

Studying the Costs of Supermarket Operation

Over the last decade, the issue of food security has received significant attention in the media and from legislators. Food insecurity exists when households are forced by economic circumstances to frequently cut back on or skip meals. It is often a result of poverty, unavailability of food, under-utilization of food assistance programs, and/or regressive sales or income tax policies.

According to the U.S. Census, nearly 11 percent of all U.S. households manifest some level of food insecurity, with low-income minority households shouldering a disproportionately large share. In Pennsylvania, 10 percent of all households have low or very low food security.¹ The many implications of food insecurity include hunger, poor nutrition, obesity and impaired psychological development.

Research on inner-city supermarkets indicates that many inner-city areas, especially those that are socioeconomically distressed, lack stores that offer quality fresh foods at competitive prices. With funding from the CDFI Fund, TRF studied whether, and the extent to which, economic explanations exist for the lack of supermarkets in distressed urban areas. TRF also assessed select impacts of supermarket development in urban and other underserved places. Finally, the study considers how various financing strategies help to mitigate observed expense differences.

TRF explored these questions, in large part, by studying Brown's ShopRite (BSR) – a chain of supermarkets in the Philadelphia area that shared with TRF information about its costs, employees and shoppers. Using these data to analyze the chain's five urban and five suburban stores, we find that there are location-specific cost differences that make creating and expanding supermarkets in urban areas more expensive than doing so in suburban locations.

Start-up Costs: By analyzing BSR's budgets, TRF found that start-up costs for the chain's urban stores were considerably higher than for its suburban stores. BSR records show that it costs nearly seven times more to train employees in urban stores than in suburban stores at time of start up. Security costs also run higher: it costs approximately five times more per year to staff security-related positions in the

urban stores than in the suburban stores because of the need for more security employees. Security equipment within the stores is also expensive. While all stores in the BSR chain have monitoring equipment, BSR reports that it invests more heavily in equipment for its urban stores.

Operating Costs: This analysis found three statistically significant operating cost differences between BSR's urban and suburban stores: 1) ongoing staff training costs are higher for urban stores, 2) maintenance costs are higher for urban stores and 3) real estate taxes are higher for suburban stores, likely due to Philadelphia's atypical approach to estimating the value of real estate.

Inaccessibility to Supermarkets

The result of these cost differences is a lack of stores in inner-city communities. Consequently, residents of these areas have to travel outside their neighborhood to find affordable food options or they must shop at smaller, more expensive nearby stores. Shoppers who can easily travel to the suburbs do so, taking their grocery dollars outside of the city to neighboring municipalities and thus depriving the city of much-needed tax revenue. Moreover, the dollars they spend help support the creation and retention of jobs in suburban neighborhoods instead of in their own neighborhoods, where steady employment is often difficult to find.

Shoppers who cannot economize by traveling to the suburbs must spend a larger portion of their grocery budget to purchase the same amount of food from smaller stores, where both the selection and quality of goods is likely inferior. If these shoppers cannot afford to shop at higher-priced, nearby stores they may make the difficult choice to go without certain foods altogether. In Philadelphia, for example, approximately 32 percent of residents (51 percent of residents in low-income areas) travel outside their neighborhoods to access a supermarket.² This "leakage" of spending into nearby neighborhoods illustrates the real demand among low-income consumers for the variety and prices that supermarkets provide.

Impacts of Supermarket Development

TRF studied the impacts of supermarket development by analyzing the characteristics of BSR, as well as other supermarkets TRF has financed throughout Pennsylvania. The following are impacts observed during the study.

TRF-financed supermarkets are located in economically distressed communities: Over 90 percent of TRF's supermarket lending throughout Pennsylvania, and 100 percent in the Philadelphia metropolitan area, has been to stores operating in census tracts that have: poverty rates of at least 30 percent; median household income at or below 60 percent of the metropolitan area median income; and/or unemployment rates of at least 1.5 times the national average.

BSR's frequent shoppers live in the communities in which they shop: TRF's analysis of the spending patterns of customers who participate in BSR's frequent shopper program demonstrates that BSR shoppers are more likely to live in the neighborhood in which their store is located than to live in nearby neighborhoods. In other words, these stores are providing the choice previously lacking in these urban distressed markets.

TRF-financed supermarkets are located in areas with limited supermarket accessibility: TRF-financed supermarkets have significantly increased their surrounding communities' access to supermarkets. TRF-financed stores have increased the communities' access to both moderately sized and large stores, which generally have wider selection and lower prices than smaller stores.

BSR's urban-store employees live in distressed communities near the stores in which they work: Seventy-eight percent of part-time employees and 36 percent of full-time employees at the three BSR locations that received funding from TRF live in census tracts that have very low household incomes, high poverty rates, or high unemployment rates (Map 1).

BSR's urban supermarkets bring new job opportunities to residents in distressed communities: Urban residents do not commute to work in BSR suburban supermarkets but, when given the opportunity, do apply for jobs at urban stores in close proximity to their residence.

BSR's urban-store employees earn wages comparable to those of their suburban and industry peers: Part-time urban BSR employees earn at least as much as their suburban counterparts (more if they have one or more years of tenure). BSR employees with more than one year tenure in the two job categories we could compare

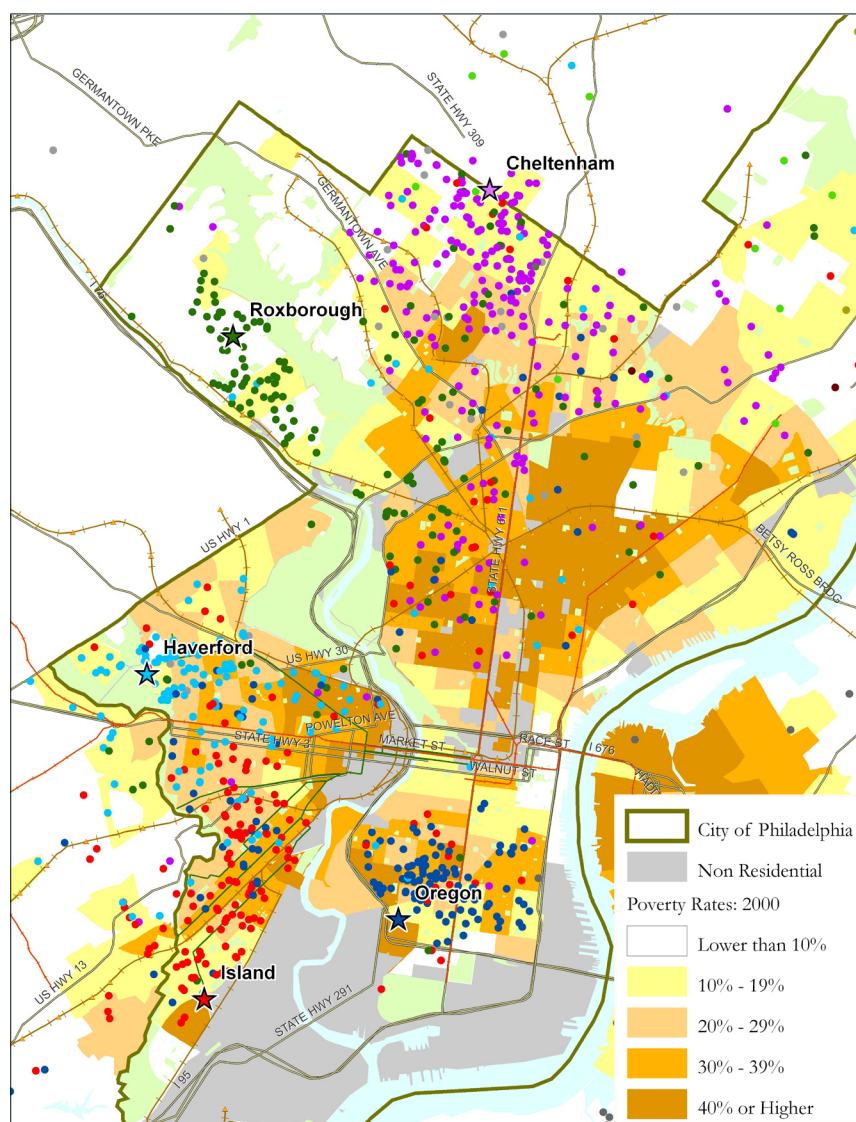
with available data (clerks and cashiers) earn wages that are comparable to, or even higher than, their industry peers; if employees have less than one-year tenure, BSR wages are lower than those of industry peers.³

BSR's urban-store employees receive wage increases comparable to those of their suburban and industry peers: In the case of BSR, supermarkets in economically distressed areas are able to offer their employees annual pay increases on par with the increases offered to employees of stores in non-distressed areas; this finding coupled with the finding that wages paid to employees of stores in urban areas are on par with those paid in suburban stores suggests that BSR is offering both comparable wages and wage increases to residents of distressed areas.

TRF-financed supermarkets act as retail anchors in their communities: Job growth around 5 TRF-financed stores was measured to determine whether these stores serve as economic anchors. Data trends suggest that after 4 out of the 5 stores opened, total employment surrounding these stores generally increased relative to city-wide trends. These results may suggest the presence of a positive effect on overall economic activity resulting from the introduction of a new supermarket.

Conclusion

Findings from TRF's study suggest that 1) compared to suburban locations, there are demonstrable differences in the costs required to create and operate supermarkets in inner-city areas; 2) subsidy to create these markets is a necessary element to overcome the location-specific cost differences; 3) the addition of a supermarket in an underserved area offers residents a better variety of healthy food



Map 1: Residence of ShopRite Employees by Poverty Rate of Census Tract. Each star on the map represents a Brown's ShopRite store, with the location of the store's employees illustrated by correspondingly colored dots.

and enhances consumer choice; 4) supermarket customers reside in close proximity to the stores at which they shop; 5) urban supermarket employees tend to reside in distressed areas within close proximity to their store; 6) these employees obtain jobs with a positive wage trajectory and at wage levels comparable to their industry peers; 7) supermarkets may serve as retail employment anchors, although this finding remains ambiguous; and 8) supermarkets reduce leakage of food retail expenditures, resulting in a net increase in employment for the local communities. TRF believes that this analysis offers lessons important to developing approaches to financing supermarket development.

TRF's Supermarket Financing Program

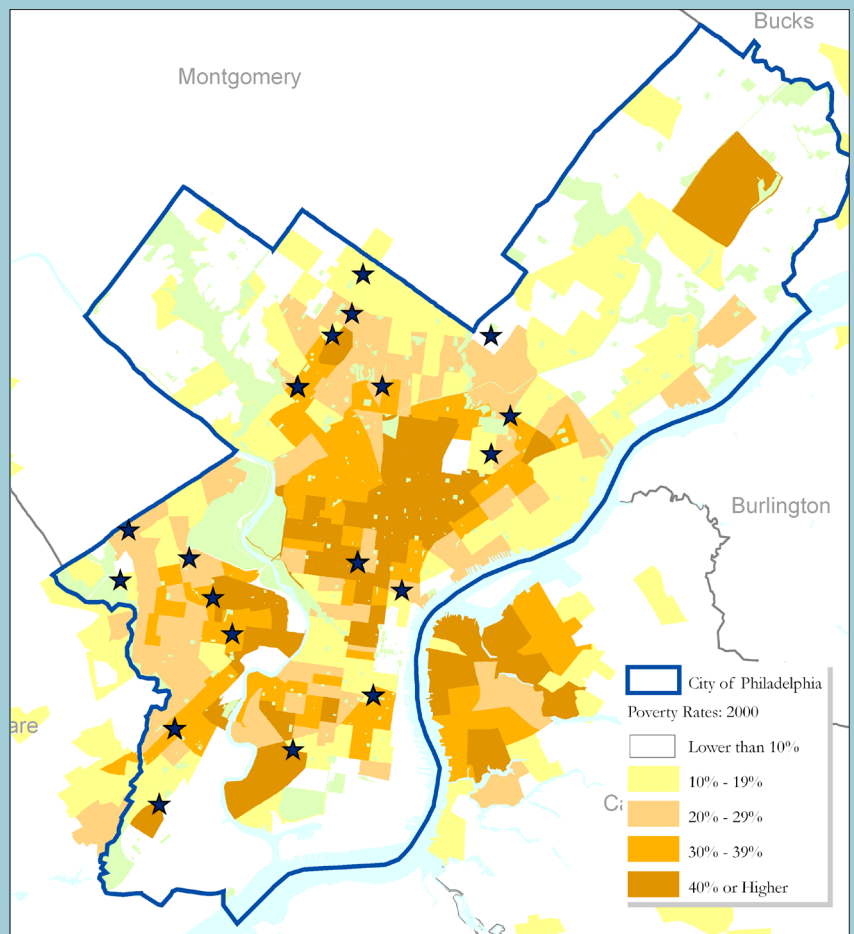
Understanding the nature of supermarket operators' costs in urban and suburban locations is important to creating effective public policy. TRF's supermarket financing program has three components: Pennsylvania's Fresh Food Financing Initiative (FFFI), the federal New Markets Tax Credit (NMTC) program, and TRF's own Core Loan Fund. Each of these programs offers unique benefits and flexibility.

Created in partnership with the Commonwealth of Pennsylvania, The Food Trust, and the Greater Philadelphia Urban Affairs Coalition, FFFI provides a full spectrum of financing for Pennsylvania supermarkets, including: predevelopment loans and grants, land acquisition financing, equipment financing, capital grants for project funding gaps, and construction and permanent financing. TRF also provides technical assistance and workforce services to its borrowers and grantees through FFFI. Eligibility for FFFI requires a supermarket to be located in a low- to moderate-income census tract that is underserved by affordable fresh foods. As of October 2008, TRF has financed 61 stores through FFFI, 17 of which are in Philadelphia.

NMTC is a major part of TRF's supermarket financing. In 2006 and again in 2008, TRF received a \$75 million NMTC allocation – a third of which is devoted to financing supermarkets in distressed communities. These funds offer favorable terms and features such as subordinated debt, lower interest rates and fees, higher-than-standard loan-to-value ratios, and more flexible borrower credit standards.

TRF's Core Loan Fund, supported by individual, institutional, and corporate investors, can be deployed at TRF's discretion and therefore allows for greater flexibility in selecting a project. Underwriting approval is based on the extent to which the project fits within TRF's mission, as well as on the long-term viability of the proposed business.

In this study, we observe that TRF's three-pronged approach to supermarket financing consistently helps compensate supermarket operators for the additional start-up costs associated with locating stores in economically distressed communities. While the grants that TRF offers can help a store operator overcome location-dependent start-up costs, they cannot, nor are they intended to, ensure long-term profitability in the face of operating expenses that are consistently higher in the city than in the suburbs. TRF considers this to be *smart subsidy*, whereby subsidy acts as a catalyst for economic development as opposed to a long-term source of operating support that perpetuates unsustainable markets.



Map 2: Grocery Stores in Philadelphia Financed by TRF

1) Nord, Mark, Margaret Andrews and Steven Carlson. (2007) "Household Food Security in the United States, 2006." US Department of Agriculture Economic Research Service; Economic Research Report Number 49. 2) The Food Trust and Philadelphia Health Management Corporation, 2006. "Food Geography: how food access affects diet and health." Retrieved from: http://www.thefoodtrust.org/catalog/download.php?product_id=120. 3) Industry data were derived from the 2000 Census Public Use Microdata Sample (5%). These PUMS data do not allow us to differentiate respondents based on job tenure.