

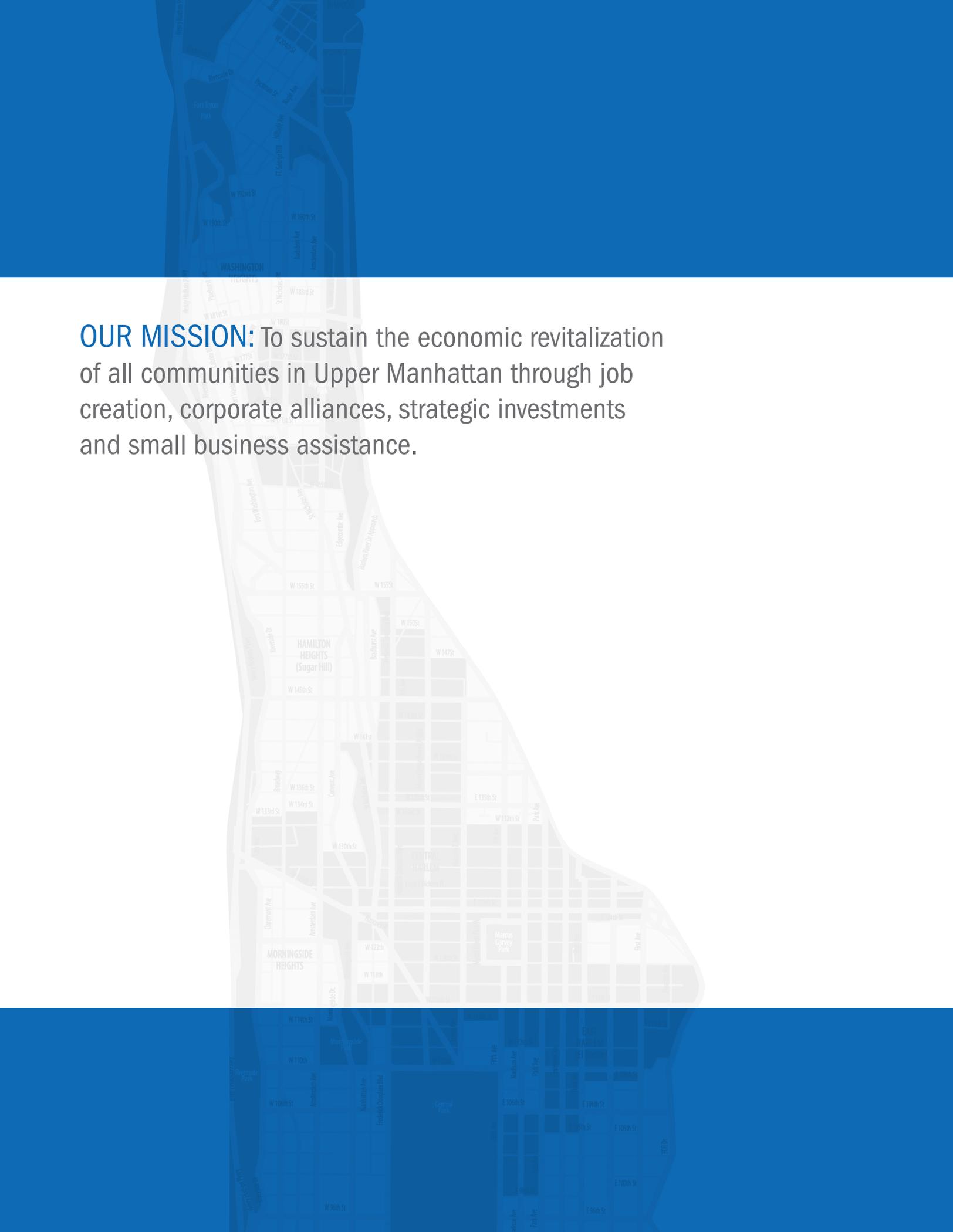


UPPER MANHATTAN EMPOWERMENT ZONE:

Channeling Growth And Opportunities
to Upper Manhattan Residents

JUNE 2014





OUR MISSION: To sustain the economic revitalization of all communities in Upper Manhattan through job creation, corporate alliances, strategic investments and small business assistance.

Although surrounded by a megalopolis renowned for a robust free market that generates enormous wealth and myriad economic opportunities, the mostly residential neighborhoods of Upper Manhattan had remained largely isolated, with poverty and unemployment rates among the highest in the city. But during the latter half of the 1990s, when the economy was booming, Upper Manhattan started to feel the impact of broader economic forces. Rising real estate prices in Midtown and Lower Manhattan drove residents into lower priced neighborhoods. The combination of housing availability, lower prices and good public transportation made Upper Manhattan a popular target. The district began to experience an influx of residents with higher incomes and diverse ethnic backgrounds. The new residents created a demand for services that was met by existing and new local businesses.

Upper Manhattan was designated an Empowerment Zone under the initial round of federal government funding in 1993. There were a total of seven Round I Empowerment Zones (Baltimore, Chicago, Cleveland, Detroit, Los Angeles, New York and Philadelphia/Camden). By the time the Upper Manhattan Empowerment Zone Development Corporation (UMEZ) launched operations in 1995, the organization had defined its geographic jurisdiction and secured funding from federal, state and New York City agencies. The goal of UMEZ was simple: improve the quality of life of residents in its district. UMEZ understood that this goal required a wholesale transformation of the neighborhoods in Upper Manhattan; a transformation that would take years to complete. It defined a bold private-sector driven strategy that focused on developing the neighborhoods of East and Central Harlem, Washington Heights and Inwood into attractive communities. The organization had up to \$249 million in investment capital and \$230 million in triple tax free bonds as well as tax credits to deploy in support of the growth of local businesses.

As UMEZ began to execute on this strategy, the organization grappled with investment priorities. Which types of economic development projects would be most inclusive? Which type of retail companies had the best chance of success in its local markets? Would national chain stores wipe out the existing mom-and-pop enterprises? Would business development lead to displacement in its target neighborhoods?

UMEZ contracted with The Initiative for a Competitive Inner City (ICIC) to analyze its activities between 1997 and 2012 and determine the organization's contribution to the economic transformation of Upper Manhattan.

UMEZ Strategies and Outcomes

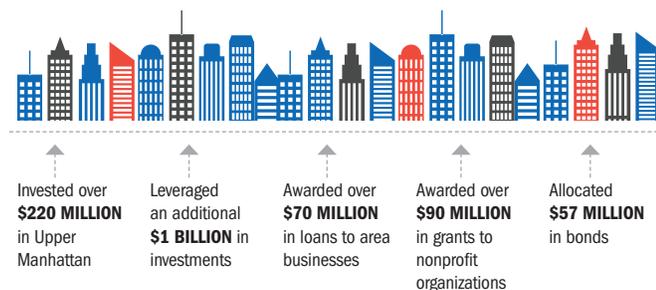
The mission of UMEZ is to sustain the economic revitalization of all communities in Upper Manhattan through job creation, corporate alliances, strategic investments and small business assistance. The organization's exclusive focus on business development, versus other types of development of human services, distinguishes it among Empowerment Zones. UMEZ has developed four signature strategies to achieve its mission:

- Increase access to capital for local businesses;
- Provide competitively-priced capital for commercial development;
- Cultivate and strengthen the community's cluster of cultural institutions; and
- Implement demand driven workforce development that connects employment opportunities to unemployed or underemployed residents.

To date, as is reflected in Figure 1: UMEZ Investments in Upper Manhattan, UMEZ has invested over \$220 million in Upper Manhattan, leveraged an additional \$1 billion in investments, awarded over \$70 million in loans to area businesses and over \$90 million in grants to nonprofit organizations, allocated \$57 million in triple tax free bonds and created over 8,000 jobs for the community. UMEZ uses two key programs to stimulate business and real estate development: the Business Investment (BI) program offers substantial loans to finance real estate development projects; the Business Resource and Investment Service Center (BRISC) offers primarily loans and business assistance to entrepreneurs.

During the period from 1997 to 2012, UMEZ channeled more than \$90 million in investments through the BI and BRISC loan programs. The investments were made to 123 businesses and seven community partners. Investments through BI also facilitated nine commercial developments in Upper Manhattan. Among the business loan recipients, seven received more than one loan from UMEZ and several community partners also received multi-year grants. During this time period, it is estimated that 5,200 new jobs were created by BI and BRISC investments in small- and medium-sized enterprises (SMEs). The estimated average cost per job is about \$17,308.

FIGURE 1: UMEZ INVESTMENTS IN UPPER MANHATTAN



CREATED 8,000 JOBS FOR THE COMMUNITY

FIGURE 2: UMEZ BUSINESS INVESTMENT PROGRAMS

	Business Investment (BI)	Business Resource and Investment Service Center (BRISC)
Purpose	Development and commercial loans to finance real estate projects	Business assistance to entrepreneurs
Target	Commercial Real Estate Developers, local SMEs (Restaurants, Retail, etc.) Community Partners and Microlenders	Start-up or expansion phase businesses
Examples	Harlem USA, East River Plaza, Grameen America, Accion	Many Frederick Douglass corridor businesses (including Restaurant Row establishments)
Loan Size	> \$250,000	\$50,000 - \$250,000
Total Investment Amount	> \$90 Million	> \$8 Million
Total Firms touched	123 businesses and 7 community partners	
Total New Jobs Created	5,200	
Avg Cost/ Job	\$17,308	

BI Loans

As is summarized in Figure 2: UMEZ Business Investment Programs, have played a critical role in commercial real estate development in the Upper Manhattan area, creating vibrant commercial corridors, such as Frederick Douglass Boulevard’s “Restaurant Row,” by investing in SMEs, community partners and commercial real estate developers through its BI loan program.

The BI loan program offers much larger loans for real estate projects and SMEs; the minimum loan size is \$250,000. BI loans are frequently used for commercial real estate development financing for construction and/or permanent financing. The terms of the loan and the amortization schedule are flexible and can be restructured to meet the needs of the particular project or business. BI loans are limited to projects that create the equivalent of at least five full-time jobs.

Commercial real estate developers have received nearly seven-tenths of the total of loans granted (nearly \$42 million total). In terms of loan volume, local SMEs have been the largest recipients, with 21 businesses receiving loans totaling over \$8 million. “Community Partners,” nonprofit organizations that provide services such as technical assistance and business training workshops in Upper Manhattan, receive funding in the form of performance-based grants. In all, UMEZ has disbursed about \$10 million to community partners.

Community partners include East Harlem Business Capital Corporation (EHBCC), serving the primarily Latino areas of East Harlem; Harlem Business Alliance, serving Central Harlem; New York Women’s Chamber of Commerce (NYWCC), serving western and sections of Northern Harlem, and Audubon Partnership, serving the

upper reaches of Northern Harlem. UMEZ uses community partnerships to reach populations that traditionally are wary of mainstream organizations.

Almost 60 percent of the total value of the BI loans has funded the construction of large retail developments, such as shopping facilities and restaurants. About 4 percent of the BI total dollars has gone to community partners. The remainder of BI loans has funded SMEs, primarily restaurants and retail.

In 1998, UMEZ made an unprecedented, and in some circles, controversial investment in Harlem USA, one of the largest retail developments in the community at the time. Harlem USA brought national retail outlets and the neighborhood’s first multiplex movie theater to Upper Manhattan. To the investor community, this project demonstrated the viability of commercial real estate projects.

Building on its experience with Harlem USA, in 2005 UMEZ made its largest investment to date in East River Plaza, a 485,000 square foot real estate development project that has attracted almost a dozen major national retail chains to Upper Manhattan. Occupying the former Washburn Wire Factory in East Harlem, East River Plaza is a multi-story shopping mall that opened in 2009 with a \$15 million loan from UMEZ and \$40 million in triple tax exempt Empowerment Zone bonds.

UMEZ INVESTMENTS FUELED RETAIL DEVELOPMENT IN UPPER MANHATTAN.

- HARLEM USA BROUGHT NATIONAL RETAIL OUTLETS AND THE NEIGHBORHOOD’S FIRST MULTIPLEX MOVIE THEATER
- EAST RIVER PLAZA ATTRACTED ALMOST A DOZEN MAJOR RETAIL CHAINS

As the examples discussed above highlight, UMEZ has carefully employed BI loans to provide gap financing for real estate development projects, financing that often makes the difference between a project going forward or remaining on the drawing board. Gap financing fills the void between construction and permanent financing and it leverages the participation of private-sector lenders. The cumulative “leverage ratio” looks at how efficiently UMEZ’s capital investment attracted private-sector investment capital to a particular project. Within three years of operations, this ratio neared 5X and, excluding the two projects with a UMEZ contribution of five percent or lower, the cumulative leverage ratio was 3.9X as of 2010.

BRISC Loans

The BRISC loan program is UMEZ's primary vehicle to serve businesses that do not have access to traditional lending sources. BRISC loans are tailored for small businesses in Upper Manhattan that are either in their start-up or expansion phase. These loans range in size from \$50,000 to \$250,000 and offer more flexible terms and conditions than traditional commercial loans. There is no job creation requirement associated with these loans. For many years, the BRISC loan program was effectively the only source of start-up and small business capital in the Upper Manhattan district. BRISC loans fill the lending gap that exists between the very small dollar loans offered by micro-lenders and the larger loans offered by more traditional financial institutions. Start-up businesses represent the majority of BRISC loan recipients. Since 1997, UMEZ has also provided funding to support community organizations that serve as micro-lenders in their community (e.g., Grameen America and Accion).

BRISC provides technical assistance to the recipients of BRISC loans. Documentation provided by the applicant to support the loan request, including the tax filings and financial statements, is typically incomplete and at times inaccurate. However, at UMEZ, the purpose of lending is not only about deploying capital, but also about building the knowledge and capacity of businesses to attract capital. UMEZ staff operates as business counselors and analysts to their clients. They understand what it takes to operate a business in general and specifically the demands of consumers in their district.

Technical assistance is also provided by UMEZ community partners across Upper Manhattan. The goal of the technical assistance effort is to create viable businesses capable of qualifying for loans from banks and other private-sector lenders, thereby increasing the likelihood of their long-term viability. Many of the UMEZ clients operate informally and need help setting up processes and internal infrastructure, including maintaining proper records and business plans to meet the standards of traditional lenders. UMEZ, through BRISC, also provides business counseling. Entrepreneurs who presented untenable business plans were advised on how to revise them. Care is taken not to discourage enthusiastic entrepreneurs.

The business-loan cycle at UMEZ is longer and more involved than that of traditional lending organizations and community development financial institutions. After the loan has been approved and distributed, staff visits the businesses monthly for the first year and 1-2 times a year after that to ensure that they are still operational. UMEZ stands ready to restructure loans based on the needs of the business, and/or provide advisory services as needed after the loan has been made. UMEZ has developed practices and strategies that help them select clients that are likely to be successful. For example, UMEZ staff has advised on restaurant menus, recruitment of local talent and growth plans. The price of this consultative relationship to the client is not



AT UMEZ, THE PURPOSE OF LENDING IS NOT ONLY ABOUT DEPLOYING CAPITAL, BUT ALSO ABOUT BUILDING THE KNOWLEDGE AND CAPACITY OF BUSINESSES TO ATTRACT CAPITAL.

money, but time: the UMEZ loan process, from pre-application through post-closing may take as long as two years.

UMEZ is cautious about promoting its programs because it wants to avoid raising unrealistic expectations among its residents. The organization does minimal outreach to attract prospective grantees or loan recipients. Yet, the staff understands that they need to be open to the possibilities of each prospective client. Every client has the potential to become part of the network of businesses and organizations that contributes to the improved economic vibrancy in the community. At the end of the day, UMEZ knows that it is often the only game in town for many of their clients.

EXPANDED COMMUNITY ROLES

The UMEZ mission has led the organization to move beyond its role as a lender to businesses and residents into an expanded set of community roles.

Knowledge Broker

UMEZ has acquired a granular knowledge of its district that begins at the street level and continues up to the relevant agencies and policy-makers in city hall and the state capital. UMEZ readily shares its knowledge and experience, acting as both an ombudsman for businesses that and real estate developers who seek a better understanding of the market and as an advisor to others interested in pursuing economic development. Although difficult to quantify, knowledge of this breadth and depth is an invaluable economic development resource in any



area. Through its community partners support program, UMEZ is closely integrated with grassroots community development groups from every section of the empowerment zone. As a result, UMEZ has become a matchmaker, connecting external investors and interest groups to local businesses and development opportunities. Government agencies routinely consult with UMEZ when assessing development opportunities in Upper Manhattan. Through the knowledge it shares, UMEZ has added to the transparency of the Upper Manhattan market, an essential ingredient in attracting regional and national businesses as well as investment capital.

The district needed a more business-friendly climate, which required working closely with city agencies on such issues as zoning changes, reducing regulatory hurdles, simplifying permitting and creating tax incentives. Real estate development opportunities, which were numerous in Harlem and East Harlem, were often conveyed by word of mouth to insiders. The process had to be made more transparent in order to attract a wider array of developers.

UMEZ has been able to leverage its knowledge and relationships to push forward development projects. For example, it acted as a principal sponsor for the development of Mart 125, a 67,000 square foot, mixed-use project on 125th Street that includes cultural and commercial space. Tenants will include cultural organizations and a New York City visitor's center. The project was controversial and might have stalled, but UMEZ was able to help reconcile the differences between developers, government agencies and community groups. In another case, UMEZ's work with a Washington Heights project, the Triangle Building, led to a successful New Markets Tax Credit transaction that helped finance a major commercial real estate development.

THE GOAL OF THE TECHNICAL ASSISTANCE EFFORT IS TO CREATE VIABLE BUSINESSES CAPABLE OF QUALIFYING FOR LOANS FROM BANKS AND OTHER PRIVATE-SECTOR LENDERS, THEREBY INCREASING THE LIKELIHOOD OF THEIR LONG-TERM VIABILITY

Community Advocate

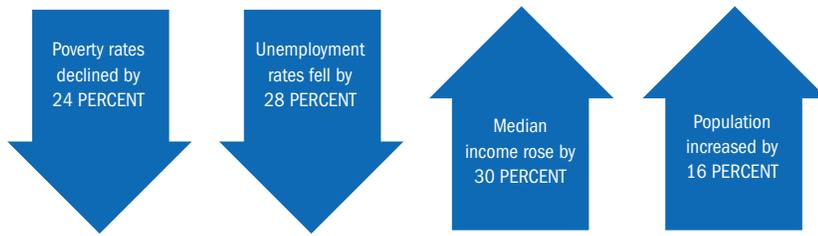
Upper Manhattan is home to the Apollo Theater, the Studio Museum of Harlem, the Puerto Rican Cultural Heritage House, the Dance Theater of Harlem, and El Museo del Barrio among other cultural institutions. From its inception, UMEZ recognized the value of Upper Manhattan's nationally renowned cultural cluster not only as a unifying community element, but also as an economic engine that could add jobs and opportunities for local residents. Again, as with many UMEZ projects that have the potential to alter the status quo, the organization had to balance the expansion of the iconic cultural cluster with the preservation of its integrity. UMEZ successfully advocated for the re-zoning of 125th Street to become a cultural corridor. A re-zoning provision required the dedication of 5 percent of the total floor area of new developments in the core sub-district (between Frederick Douglass Boulevard and Fifth Avenue) to arts and entertainment uses, such as art galleries, museums and theaters.

In addition, UMEZ established the Cultural Industry Investment Fund (CIIF) in 2000 to support local cultural institutions. The fund has provided financial assistance to both fledgling and renowned cultural institutions in Upper Manhattan. UMEZ supplemented its financial assistance with technical assistance. While the development has changed traditional patterns in some areas of the district, particularly the cultural corridor, UMEZ has made it a priority to help existing businesses and organizations adapt to altered conditions.

Developer of Economic Development Talent

Beyond the goals to strengthen the economies of Upper Manhattan, is UMEZ's contribution to the field of economic development. To that end, the most potent contribution that UMEZ has made to the economic development field may be the hiring and training of a cadre of professionals who, both while employed at the organization and after having moved on to other pursuits, tell the story of how economic development happened in Upper Manhattan and represent the interests, needs and circumstances of the constellation of businesses, nonprofits and policy-makers in these communities. One former employee attests, "UMEZ did a good job as a broker and provided on-the-job training. UMEZ definitely contributed to my career in community development," adding that UMEZ helped her get her current

CHANGES IN THE UPPER MANHATTAN ECONOMIES (1990 - 2009)



UMEZ OUTPERFORMED FIVE OF THE OTHER SIX ROUND I URBAN EMPOWERMENT ZONES IN TERMS OF MEDIAN INCOME GROWTH.

job. Another former employee states, “Overall, working at UMEZ was an edifying experience and invaluable. It helped me understand the business side of the parts of intersection [of different players] that are productive... I just spoke to a major national foundation and they reached out to me because of my previous experience with UMEZ.”

The former and current staff’s collective narrative has been enormously useful in the organization’s effort to inform this report, as they helped to make operational the strategies that characterize and define this organization. Their voices enable the realization of the organization’s strategies, but also nurture the field of economic development.

UMEZ Performance

What impact has UMEZ had on the district it serves? How does it measure up to the performance of other empowerment zone peers? The Initiative for a Competitive Inner City analyzed the activities of UMEZ over the period 1997-2010 and compared the performance of UMEZ to the other six Round I Urban Empowerment Zones. (A full report is available from UMEZ.)

Due to data limitations, changes in Upper Manhattan were measured over the time period 1990-2009. During that time, the Upper Manhattan Empowerment Zone area showed signs of significant improvement across a number of social and economic indicators: poverty rates declined by 24 percent; unemployment rates fell by 28 percent; and median income rose by 30 percent. Housing had a more mixed record: growth in housing units lagged other inner city areas in New York, but median rent rose faster and median housing values sky-rocketed, increasing by 167 percent between 2000 and 2009 after a slight decline in the 1990s (U.S. Census Bureau; 1990 and 2000 SF3 Decennial Census and ACS 2005-09).

During the same time period (1990-2009), UMEZ outperformed five of the other six Round I Urban Empowerment Zones in terms of median income growth. It outperformed four of the six Empowerment Zones in terms of the reduction of poverty and unemployment. It should be noted, however, that these indicators do not control for population

flows, meaning that some of the positive change may be attributed to the inflow of more prosperous new residents. During 1990-2009, the population of Upper Manhattan increased by 16%—the highest amongst the seven Empowerment Zones studied.

Although UMEZ cannot take all of the credit for this turnaround (macro-economic trends clearly played a significant role) it was a key player in increasing the economic opportunities in their district during this time period. In almost twenty years of service to Upper Manhattan, UMEZ has invested an unprecedented amount of capital into the district and adopted a focused, private-sector driven mission. While many of UMEZ’s accomplishments can be documented, others are harder to measure. It has, by many accounts, helped to improve the district’s business climate and communication and collaboration among business owners, community groups and the government.

The organization opted to build on the strengths of its communities, recognizing that the existing cultural institutions and entrepreneurial spirit could be the engine driving economic revitalization. At the same time, UMEZ adopted a rigorous and disciplined approach to lending that was consistent with its fiduciary responsibility and maintenance of the public trust. In spite of operating during a time of significant demographic, political and economic change, UMEZ is arguably one of the more successful of the original Empowerment Zones.

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The ICIC team that contributed to this report consisted of Teresa Lynch, Rachel Rochat, Lois Rho, Thom Goff, Kim Zeuli, Matt Camp and Mary Duggan. Contributors from UMEZ consisted of Kenneth Knuckles, Hope Knight, Blair Duncan, Anthony Wojcik, Cedric Smith, LaToya Cowan, Joseph Middleton, Grace Asenjo, and Lisa Van Brackle.

