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RISING TIDE LIFTS ALL BOATS

INVESTING FOR IMPACT IN BOSTON AND GATEWAY CITIES

Private Equity Fund Hopes TODs Can Solve Public Health Disparities

The Healthy Neighborhoods Equity Fund is an investor in the 83-unit Treadmark, a $45-million mixed-income residential complex being developed by Boston-based Trinity Financial near the MBTA's Ashmont station in Dorchester.

BY LAURA ALIX | BANKER & TRADESMAN STAFF

The sponsors of a Boston-based equity fund are hoping that investing in just the right transit-oriented developments will boost the longevity and health of those living in some of the city's most vulnerable neighborhoods.

That's the stated mission of the Healthy Neighborhoods Equity Fund. A joint initiative between the Massachusetts Housing Investment Corp. (MHIC) and the Conservation Law Foundation, the $30 million private equity fund aims to provide patient capital to fund transit-oriented developments that would create walkable spaces and easy access to public transportation and economic opportunities.

Broadly speaking, the program's sponsors hope these developments will begin to improve the quality of life and health of people living in those neighborhoods.

"It grew out of an effort, really organized by the Metropolitan Area Planning Council, looking to accelerate the process of transit-oriented development. They looked at the pipeline and looked at the financing gaps," said Joe Flatley, president and CEO at MHIC. "The primary financing gaps were for equity, not debt, and particularly for market-rate housing and commercial and retail."

The fund works in tandem with other sources of financing. A typical real estate development might draw on about 75 percent debt to 25 percent equity, Flatley said, but that can be problematic in neighborhoods or developments that have not yet proven their value.

"The problem is the debt is 'of value,' and if the value in a market is not yet proven – for example, in a neighborhood like Dudley Square or for a retail or commercial development – you can't really raise the debt you would normally raise for a real estate project because the value has not yet proven itself," he said. "If you're trying to have a transformative impact on an area, there is an equity gap and that's what our fund is designed to provide."

Moreover, a typical private equity investor would probably look for a return around 15 to 20 percent, whereas the Healthy Neighborhoods Equity Fund is looking to provide a return closer to 10 percent.

"There's a lot of risk involved in developing real estate," Flatley said. "We're trying to provide lower cost capital, roughly around 10 percent… It's lower cost equity and it's equity that goes into markets that are not yet proven."

To date, the fund has closed investments in three transit-oriented developments out of four that it's approved. Those include the Chelsea Flats, the Treadmark and the Landing in Braintree. They hope to close on a fourth, the Melnea Residences, in the coming months.

Where capital is concerned, the fund has closed on $11 million worth of investments from area banks, nonprofit foundations and government entities, and Flatley expects the fund to be fully capitalized sometime next year. Ultimately, he anticipates the HNEF will invest anywhere from 5 to 25 percent in as many as 10 or 12 of those transit-oriented developments.

After that, the hard work begins.

Measuring Impact

If you thought that developing healthy neighborhood sounded like a tall order, measuring their impacts will likely prove a far more difficult task.

Maggie Super Church, a health strategy and metrics consultant with the Conservation Law Foundation, said the organization has drawn on a wealth of data from the U.S. Census to the state Department of Public Health to draw up a framework by which it measures those projects it considers for investment.

One particular metric was a census tract datum that showed life expectancy varied as much as 33 years between Back Bay and Roxbury. Residents of the latter neighborhood have a lower life expectancy even than those in Cambodia or Iraq.

Super Church also cites a health impact assessment produced by the MAPC that largely forms the scorecard the fund uses to evaluate potential investments.

"We were particularly interested in health impacts and how those things can collectively influence everything from how long you live to how well you live to how productive you are in the work force," she said. "MHIC needs to find that it meets the underwriting criteria and CLF needs it to meet the impact criteria, so we're really looking for projects that can achieve both of those things."

In concrete terms, that might mean that a development with lots of walkable spaces and amenities would better incentivize residents to walk more often. Not only does that mean they would get some daily exercise, but that also means they're out and about, talking to each other and getting to know faces in their neighborhood. In turn, that makes the area safer, Super Church said.

The CLF and MHIC have partnered with the Department of Public Health and the MAPC on the task of actually measuring the impact, and that begins now with figuring out where those dollars could have the greatest payoff.

"We're actually looking at health conditions of people in the neighborhood today," Super Church said. "We want to invest in places where health may be poorer but where we see that health could be addressed by healthy development. We're able to pinpoint where people's health is not as good and where we want to target this fund for maximum impact." ■

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