

FOOD ACCESS FINANCING IN DETROIT

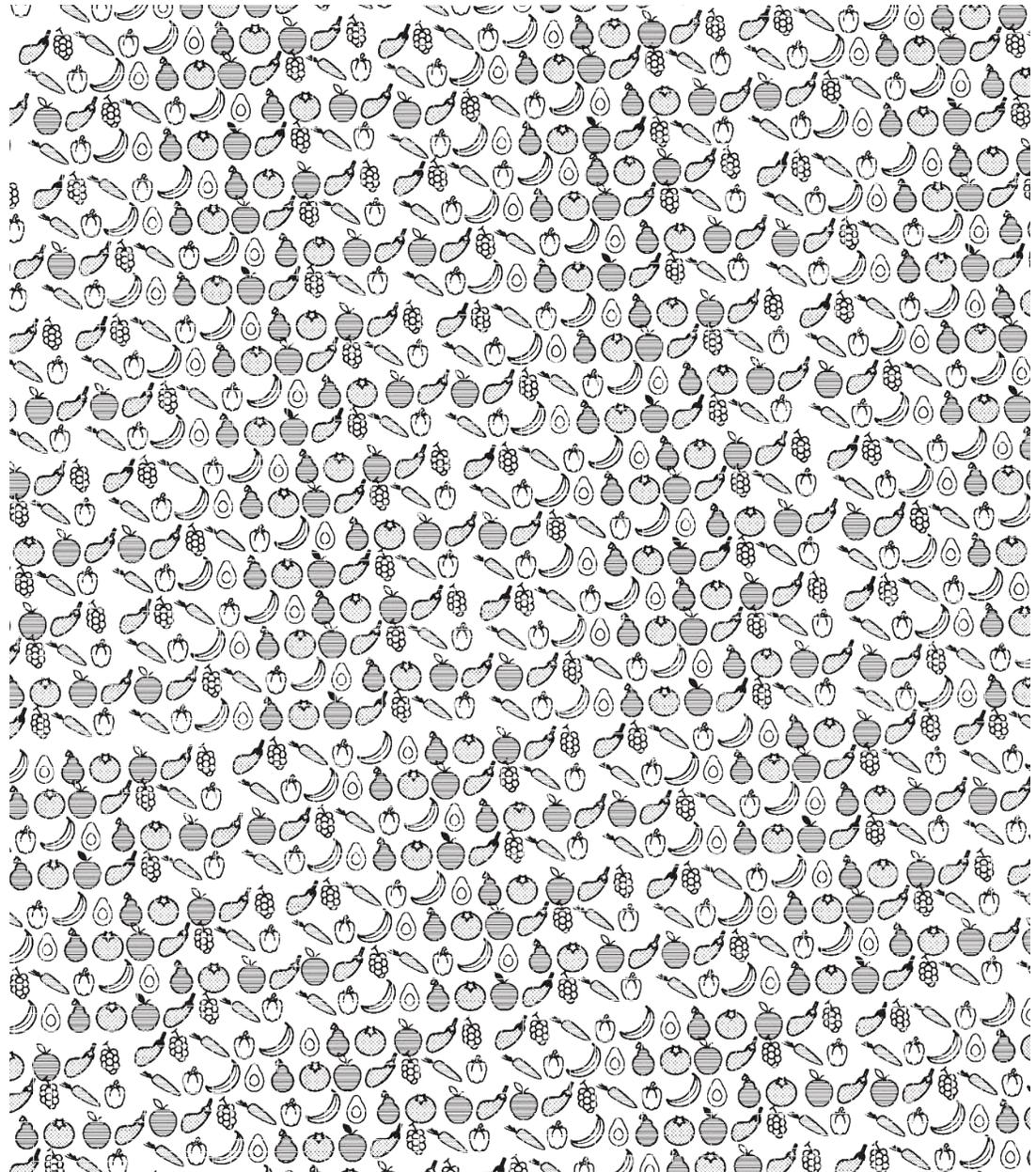
A report for the Michigan Good Food Fund

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A report for the
Michigan Good Food Fund

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I. INTRODUCTION

Michigan Good Food Fund and Report Team

This report is presented to the Michigan Good Food Fund (MGFF) and Capital Impact Partners to offer recommendations for appropriate sites for a full line grocery store in underserved locations in Detroit, Michigan. This report is produced by five Urban Planning students in the Department of Urban Studies and Planning at the Massachusetts Institute of Technology as a client-based project for the course Financing Economic Development under the supervision of Professor Karl Seidman. The Michigan Good Food Fund is a program managed by Capital Impact Partners, a national Certified Development Finance Institution (CDFI). The objectives of the Michigan Good Food Fund and its investors are to increase access to healthy and appropriate foods to ultimately advance social equity in communities with low-moderate income, a high minority population, and that are generally underserved.

Detroit Context

The city of Detroit has experienced severe economic and population decline over the course of several decades from a peak population of 1.85

million people in 1950¹ to 713,777 in 2016.² While a majority of the neighborhoods are continuing to experience population decline, there are some neighborhoods experiencing population growth as development efforts stabilize the 7.2-mile zone of development in downtown, mid-town, and the cultural district. In 2014, roughly 42% of Detroit residents participated in the State's Food Assistance Program (FAP)³.

In 2016, Capital Impact Partners released a market study on the strategic development of six neighborhoods for mixed use and mixed income projects. Commercial corridors, relative stability, and potential for densification were considered in the study. Amongst the considerations of economic infrastructure, grocery stores as a means of access to healthy foods is a necessary fixture for anchoring and stabilizing a neighborhood. It is estimated that \$178 Million

1 Gavrilovich, P., & McGraw, B. (Eds.). (2006). The Detroit almanac: 300 years of life in the motor city. Detroit Free Press.

2 Population Demographics for Detroit, Michigan in 2016 and 2015. (2016). <https://suburbanstats.org/population/michigan/how-many-people-live-in-detroit>

3 2014 American Community Survey, 5-Year Estimate

in annual grocery sales are leaked from the city of Detroit to suburban stores.⁴ According to the Detroit Economic Growth Corporation Green Grocer Program, the city could support about 400,000 additional sq. ft. of retail food space.⁵ The information in this report will highlight the geographic areas in Detroit that are most suitable for a full line grocery store.

Project Approach

Market analysis was performed to identify whether a given site could support the expansion of an existing store, or support the rehabilitation of a vacant store or new construction of a store. Examining the supportable square footage of existing stores, square footage of competing stores, and the household potential expenditures on groceries served to quantify the placement of a store. The grocery store locations in this study were selected based on a combination of factors, including but not limited to market feasibility, parcel size, zoning, and proximity to a commercial corridor and other amenities. The financing requirements are identified for two typological scenarios: 1) expansion of an existing non-full line store, and, 2) a new grocery store

4 http://programs.lisc.org/detroit/images/detroit_cdfi_coalition/asset_upload_file345_22046.pdf

5 http://programs.lisc.org/detroit/images/detroit_cdfi_coalition/asset_upload_file345_22046.pdf

through rehabilitation of a vacant store or new construction of a store.

The intention of this report is to provide recommendations that Michigan Good Food Fund (MGFF) may use to understand the extent of grocery need in Detroit based on the criteria used in our analysis, narrow the search for viable locations, and understand the likely financing possibilities and challenges. These recommendations should also provide a starting point for MGFF to develop a pipeline of projects that align with the goal of increasing food accessibility where needed. While the entire city of Detroit is included in the analysis, attention is given to potential areas outside of the greater downtown core on the premise that, compared to the rest of the city, the greater downtown is already receiving increased investment. We hope that this report will contribute to research on the current food landscape in the city of Detroit.

Based on the spatial and market analysis, as well as other information gathered through site visits and relevant sources, we offer the following findings and recommendations, which are expanded on further in subsequent sections:

Findings

There are 8 areas without a current grocery store that have enough market demand to support a new store.

Of these, 5 have sufficient demand to support a 15,000-25,000 sq. ft. store (or slightly larger),

which is the ideal size for an urban store, as reported to us anecdotally, and is consistent with recent grocery store projects in the city. There are 3 existing non-full line grocery stores that could be physically expanded to meet a supply gap.

Recommendations

Attracting new or existing operators to open new locations.

Further research is needed to understand how much interest exists among current or potential store operators to open new stores at the identified sites in order to build a project pipeline. Individual outreach to current storeowners and collaborating with the Association of Food and Petroleum Distributors (AFPD), which has a significant presence in Michigan and Detroit, specifically, will help identify potential operators.

Preliminary site selection criteria.

Our analysis takes into account commercial zoning, parcels size and availability, proximity to other amenities, and location along commercial and transportation corridors. Other criteria for future consideration may include ability to gain site control, the cost of renovation versus new construction, alignment with tax incentives, alignment with Detroit planning initiatives, and operator preference.

Financing without New Markets Tax Credits (NMTCs) or equivalent capital subsidies will be difficult.

Grocery store owners may have to take on more debt as NMTCs become more competitive to obtain.

MGFF may have to increase loan amounts or increase grants to offset this burden on grocers.

MGFF may have to develop new, more affordable terms to remain competitive.

MGFF should consider developing new products to the programmatic needs of grocery stores, particularly workforce development and business development activities.

Advance and leverage partnerships with other financing sources.

Until a project pipeline is developed, it may be more effective to channel resources to smaller intermediaries.

On larger projects, MGFF may not need to be in the primary lending position.

II. MARKET ANALYSIS

Qualitative Spatial Analysis

Overview of Spatial Analysis Methodology

The barriers to affordable and healthy food access for Detroit residents are profound and multifaceted. Today, these barriers not only prevent residents from conveniently accessing affordable food in the grocery stores that exist in the city—they also present challenges for the improvement of existing stores or the opening of new ones. In order to better understand these barriers to food access, we used a spatial analysis of the existing food access system in Detroit to inform potential locations and types of system intervention. By layering different economic, social, and physical conditions, the following spatial analysis illustrates the complexities and nuances of food access patterns in Detroit, and helps to inform a subsequent market study for assessing where new investment in food retail could best serve populations in need⁶.

⁶ Data sources for this analysis include the U.S. Census Bureau ACS Five Year Survey for 2014, U.S. Department of Agriculture, Michigan Department of Agriculture and Rural Development, and Data Driven Detroit.

Existing Conditions

Food Retail Types

There are approximately 83 grocery stores in the City of Detroit today⁷, of which 52 (or 63%) are classified as “full line”. In order to qualify as a full line store, the business must provide “a line of dry groceries, canned goods, or nonfood items as well as perishable items such as fresh produce, meat, and dairy products” (Data Driven Detroit, 2013). Of these stores, all but three are locally, independently owned chains or single-franchise stores.

“Non-full line grocery stores” are grocery stores which lack any of the requirements for “full line” qualification mentioned above. The roughly 31

⁷ This number is based on field data collected in 2013 by Data Driven Detroit, which was then independently verified by this research team via anecdotal information from local officials and Google Maps aerial and streetview imagery, as well as recent business reviews.

(or 37%)⁸ non-full line grocery locations were determined by taking a list of all grocery stores in the city prepared by Data Driven Detroit and subtracting the 83 full line locations from the total.

Convenience stores also play a large role in the Detroit food retail ecosystem. With roughly 251 locations⁹ blanketing the city, these stores include dollar stores, corner markets, gas station markets, national convenience store chains like 7-Eleven, and specialty food stores such as meat markets. While not intended as primary sources of groceries, many of these stores sell food basics like water, milk, canned goods, and cereal, as well

⁸ This number is based on NETS and ESRI business data, which was then independently verified by Data Driven Detroit based on local knowledge and visual confirmation with Google Maps. These locations are grocery stores which primarily sell food and don't include convenience stores.

⁹ This number is based on food retail location 2016 data from the Michigan Department of Agriculture and Rural Development. For the purposes of this report, "convenience stores" include retail establishments that could potentially serve as daily food buying locations for Detroit residents. The complete original data set included 1,415 stores in Detroit, Highland Park, and Hamtramck. We removed stores that were already captured in our grocery store data set, as well as stores that would not likely serve as daily food buying locations such as party stores and liquor stores. Stores with names that did not clearly identify the store type were also omitted, leaving us with 251 "convenience stores" in total.

as essential household goods like diapers, paper products, and cleaning supplies.

A final category of grocery store to consider is the "former grocery store", which are grocery stores that have closed since Data Driven Detroit's 2013 inventory. In some cases these former grocery buildings now contain non-grocery uses like dollar stores. In other cases, the building appears to be vacant through visual confirmation using Google Maps.

Figure 1 illustrates the location of these different food retail types, with half-mile radii around the full line and non-full line grocery locations to indicate walkability from each store.

As seen in Figure 1, there are several instances of full line grocery and non-full line grocery clustering. Conversations with officials and researchers in Detroit alluded to the high number of individual stores the average resident visits in a single month. This is in part due to budget-conscious shoppers taking advantage of time-specific sales at various locations, as well as needing to be strategic about shopping trip locations when vehicle access is limited.

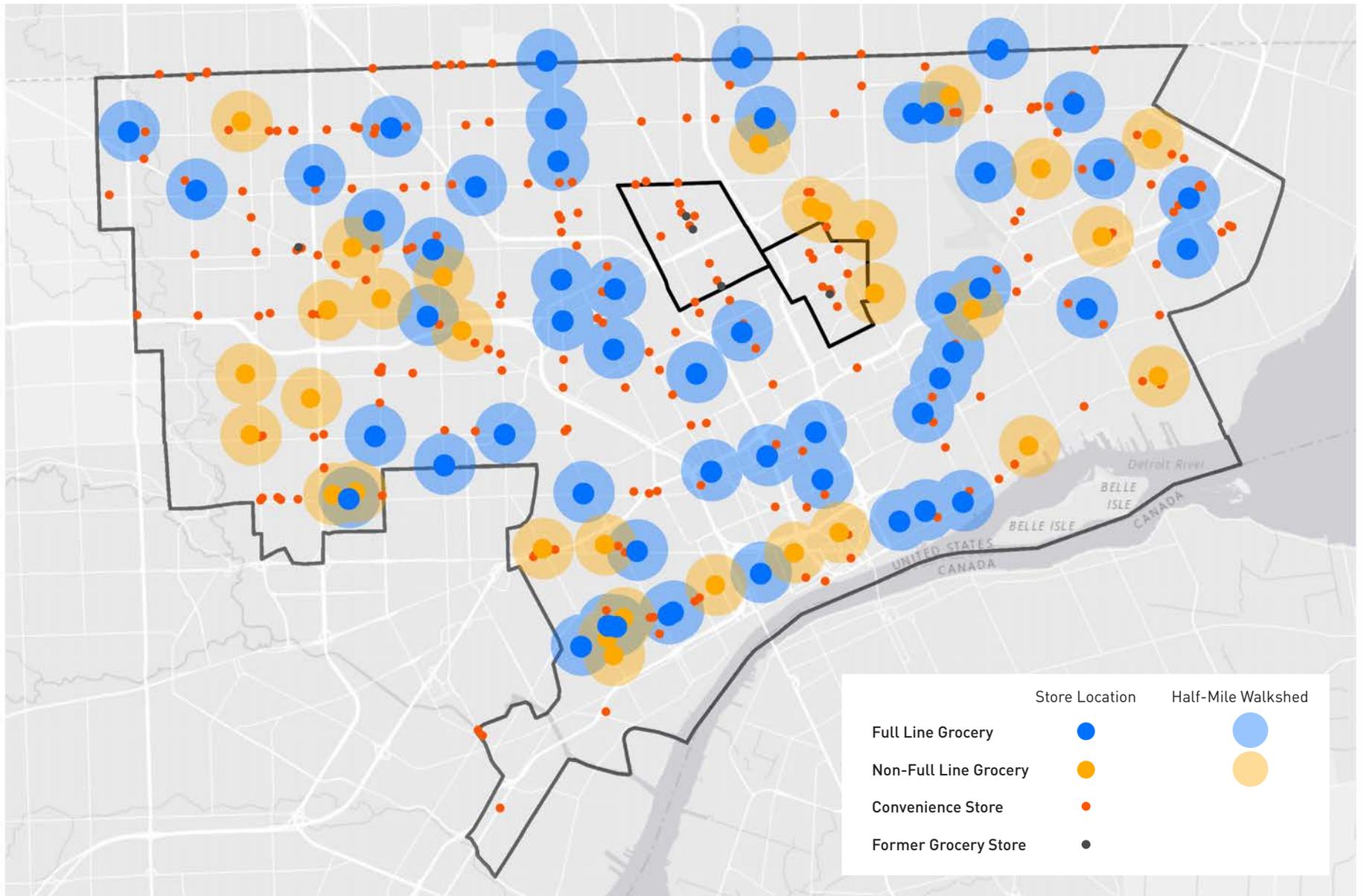
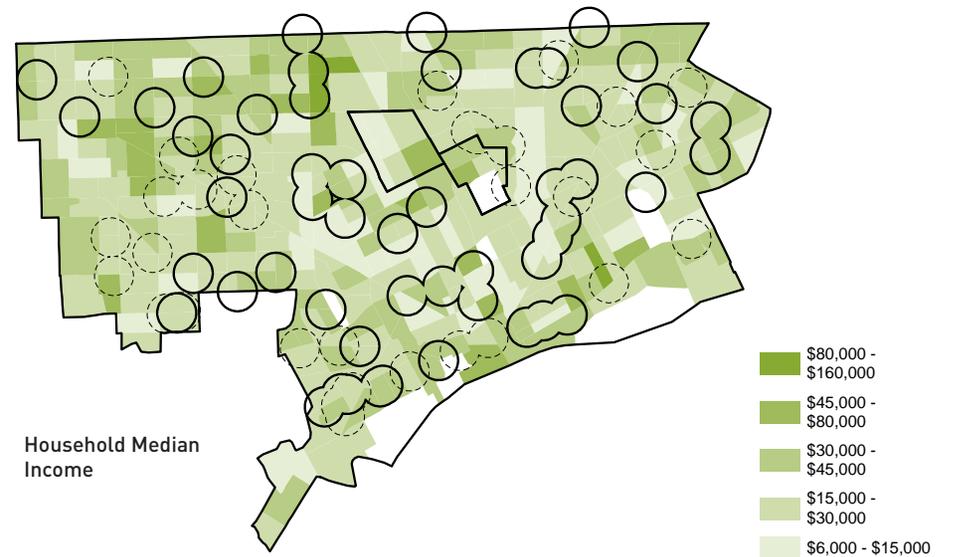
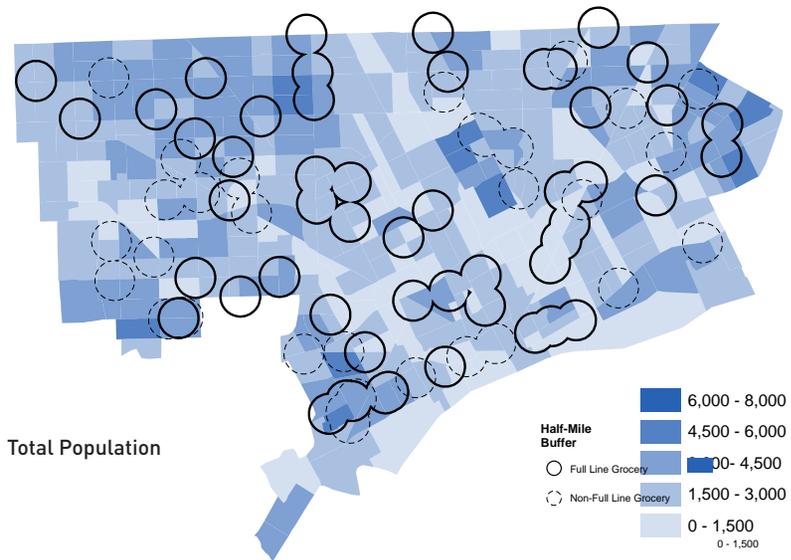


FIGURE 1 Food Retail Locations with Half-Mile Grocery Walksheds



- Full Line Grocery
- Non-Full Line Grocery

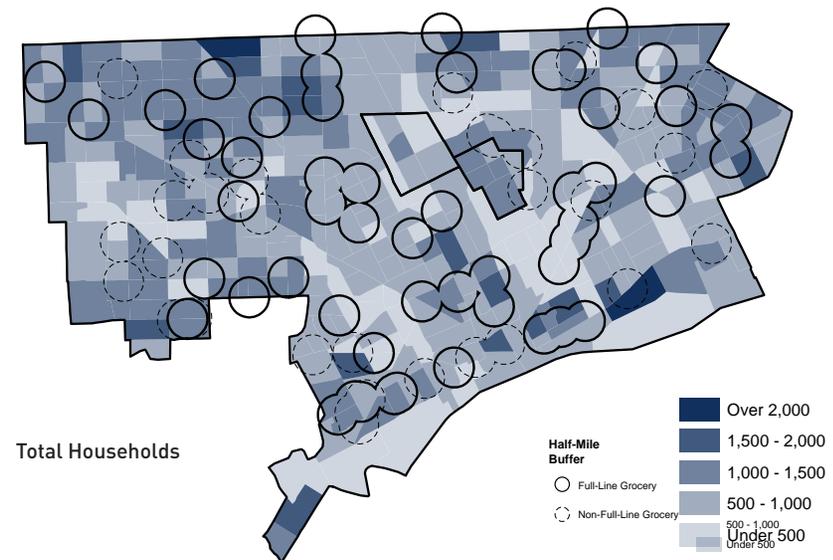
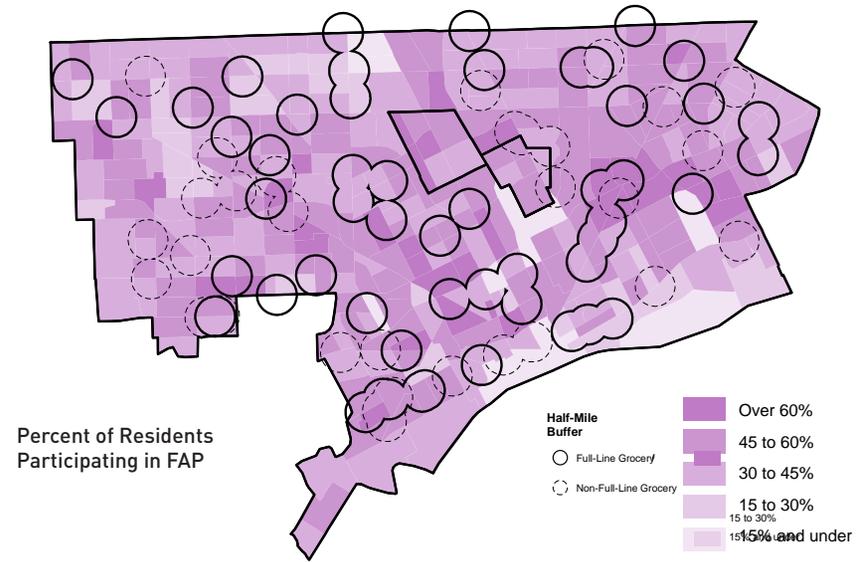
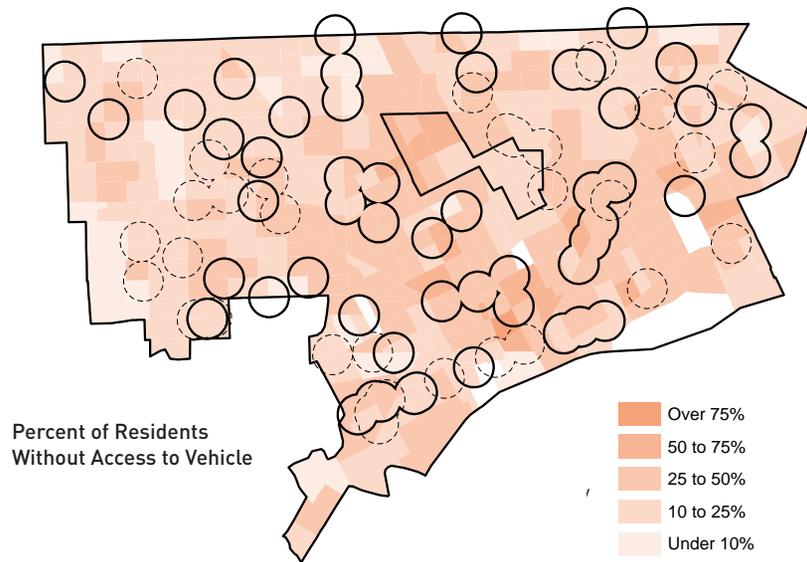


FIGURE 2 Demographic Variables with Half-Mile Grocery Walksheds



Demographics

The following socioeconomic demographic variables were used to assess existing conditions in Detroit at the United States Census Tract level:

- Total Population
- Total Households
- Median Income Level
- Households without Vehicle Access
- Food Assistance Subsidy Participants

These variables were chosen based on the United States Department of Agriculture's Food Access Research Atlas, which uses median household income and the percentage of households with access to a vehicle in its food access assessment

calculation. In Detroit, where a high percentage of households participate in the Michigan's Food Assistance Program (FAP), using participation percentages in FAP as a second income-related variable helps to further characterize household grocery spending capacity. Figure 2 illustrates the pertinent demographic variables along with the location of existing full line and non-full line grocery stores, with a half-mile radii indicated.

Other Daily Amenities

For this report, the location of other frequently visited uses were added to the spatial analysis to better understand the extent to which these uses are in proximity of current grocery stores. For households that lack of reliable transportation options, or for those with seniors or children, the efficiency of a trip (i.e. the number of different needs that can be accomplished within a single trip) is an important factor in assessing a household's overall level of access to food retail.

Figure 3 illustrates the location of existing grocery stores, 15-minute grocery store walk-sheds, pharmacies, clinics or medical offices, day care facilities, and schools. While there is some clustering of services near grocery stores, there are roughly 22 stores that lack these adjacent amenities and function like single-purpose grocery trip islands.

Zoning and Parcel Conditions

Parcels that are zoned for commercial use and located along transportation networks that could facilitate the freight operations of a grocery store serve as opportunities for new grocery store locations. Parcels (or clusters of parcels) that are at least 90,000 square feet¹⁰, vacant or otherwise underutilized, that are also within a half-mile of

another daily amenities, were mapped in Figure 4 to further explore how these locations relate to neighborhood demographics and food access.

¹⁰ 90,000 square foot estimate is based on assumption that a new large full line store would require 40,000 square feet of retail space at a minimum and 50,000 square feet of parking (1 space / 250 square feet of retail).

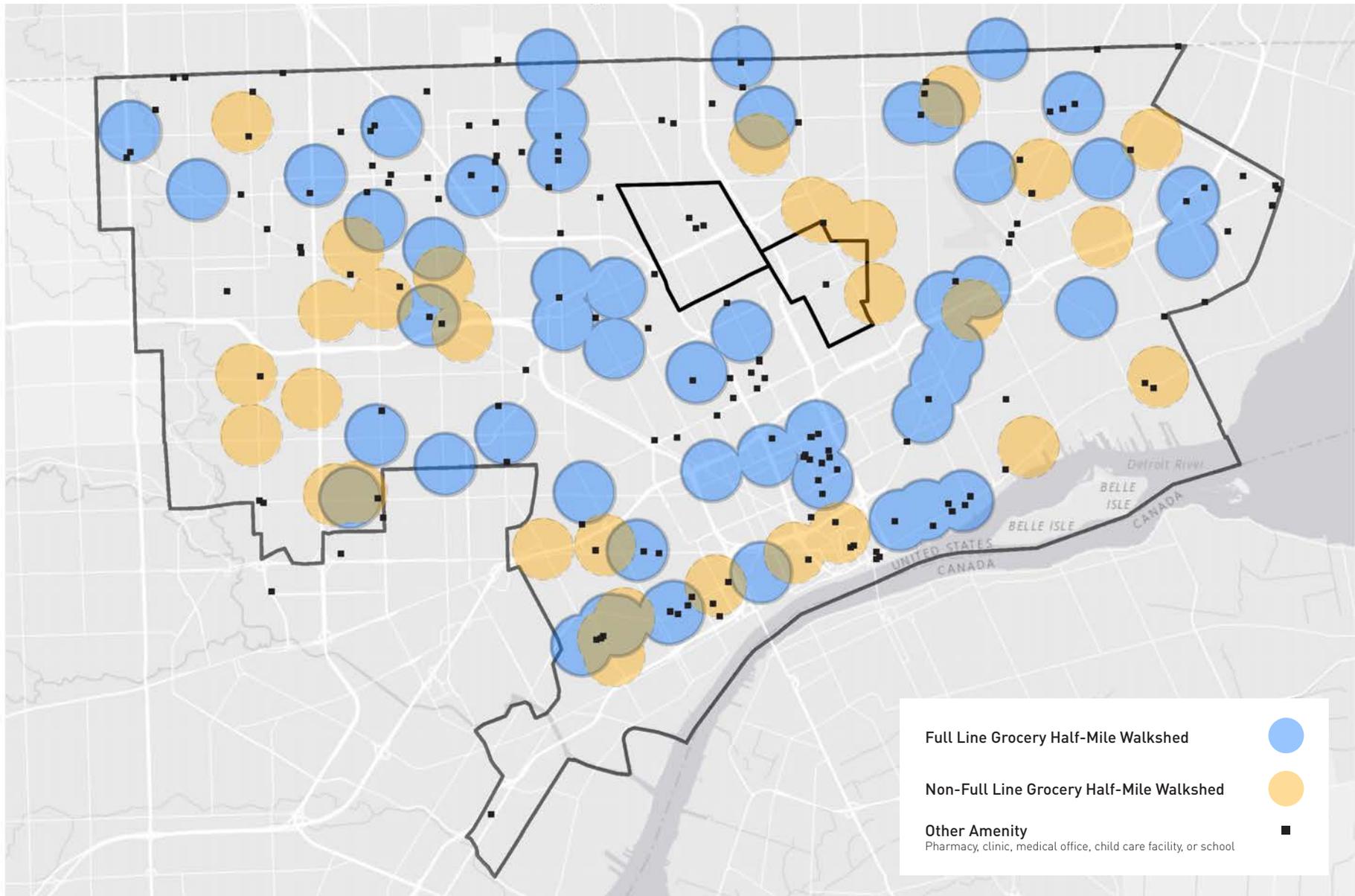


FIGURE 3 Daily Amenities with Half-Mile Grocery Walksheds

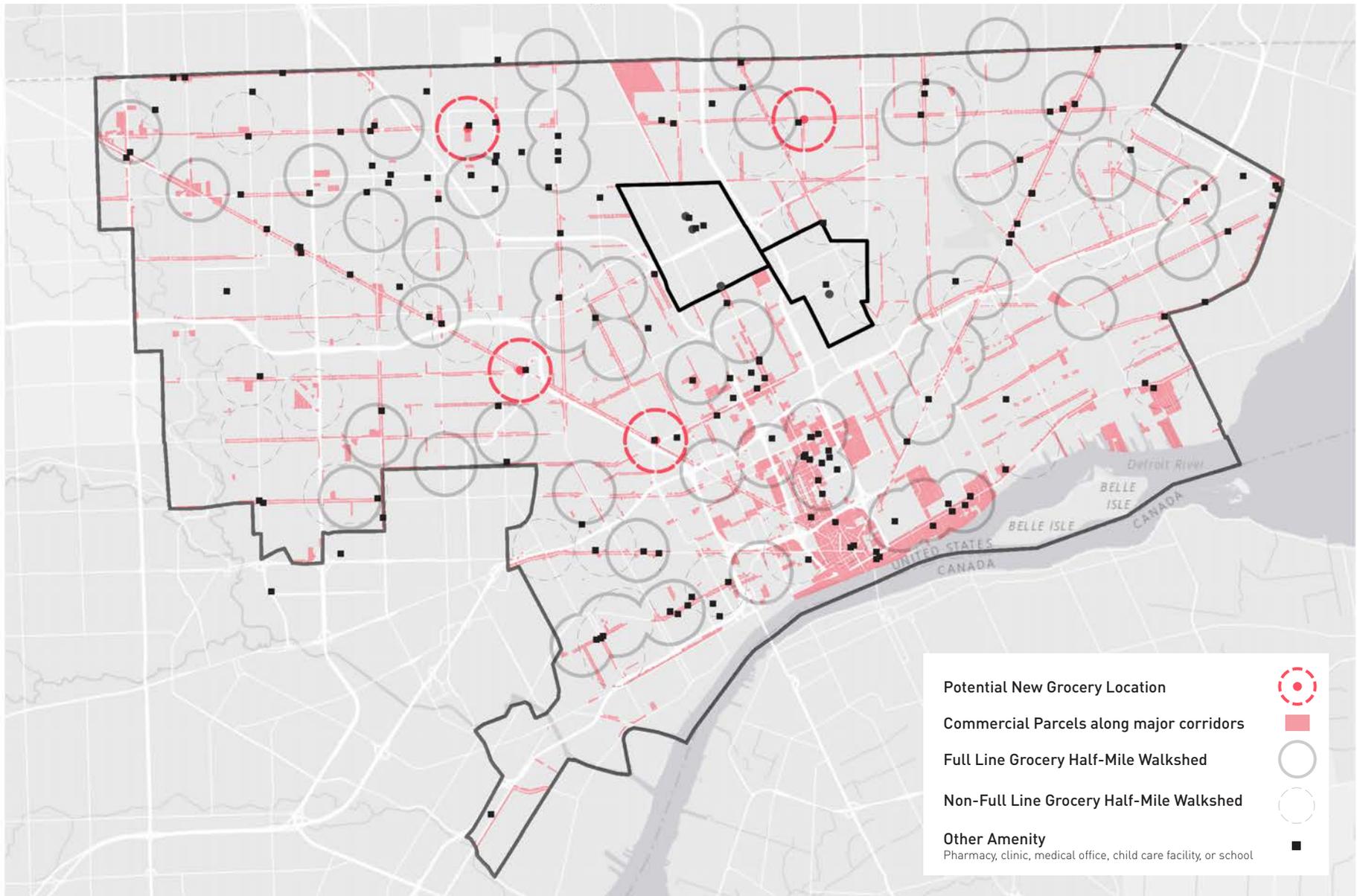


FIGURE 4 Commercial Parcels

Store Type Findings

The exercise of mapping existing conditions resulted in the following findings:

There are non-full line grocery stores located along commercial corridors that are also within walking distance of other daily amenities.

There are pockets of the city not served by a grocery store of any kind, despite having clusters of daily amenities and larger, commercial parcels.

There are former grocery store sites that are no longer in use, and their absence has created a void in their respective neighborhoods' food retail landscape.

From these findings come two types of grocery store site condition that the quantitative market study will address. Both types only include sites within walking distance (half mile) of other daily amenities, with the assumption that improving food access in Detroit requires improving the convenience of grocery shopping for a broader range of the population. Sites that can capitalize on agglomeration with other uses have a unique potential to bundle a grocery-shopping trip with other daily trips like taking children to school or visiting a pharmacy.

Type 1 - Existing Non-Full Line Stores: These are both small (20,000 square feet or less) and large (greater than 20,000 square feet) non-full line stores that could be renovated and/or reprogrammed to become full line grocery stores. Financing strategies could address intensive improvements such as increasing the store's footprint or introducing new equipment, or they could encompass smaller scale changes like store facade improvements or new programming

options.

Type 2 - Vacant Former Grocery Sites and New Sites: These are locations where either former grocery store buildings that are not currently being used as grocery stores could be repurposed, or where sites that do not contain a grocery store but are otherwise underutilized could be new locations for grocery stores. Financing strategies for these types of stores would address rehabilitation or new construction, either for new or existing local grocery businesses.

The potential locations of Type 1 and Type 2 projects, based on the analysis described above, are shown in Figure 5.

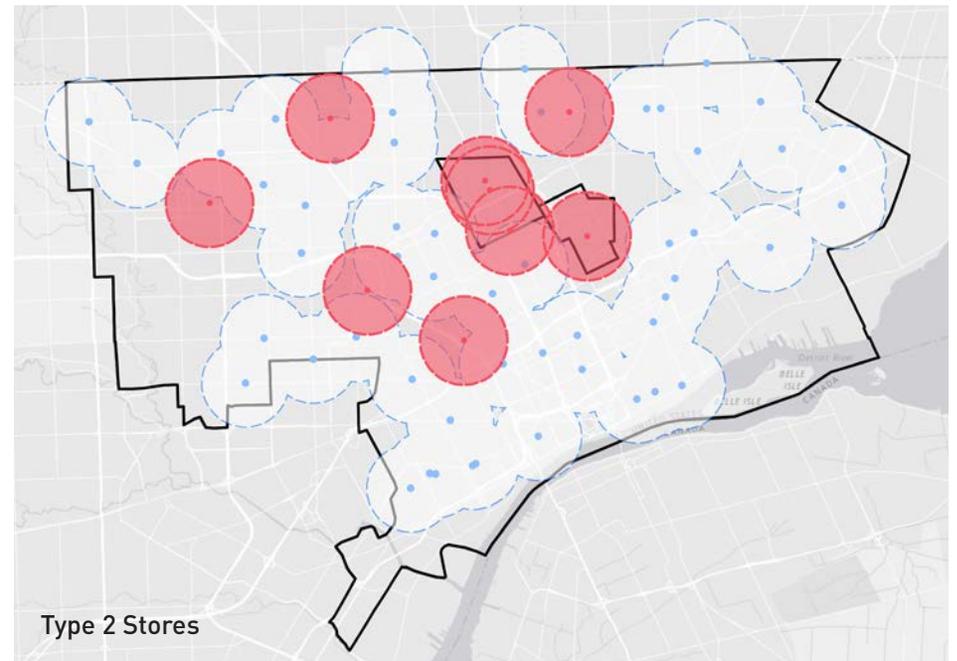
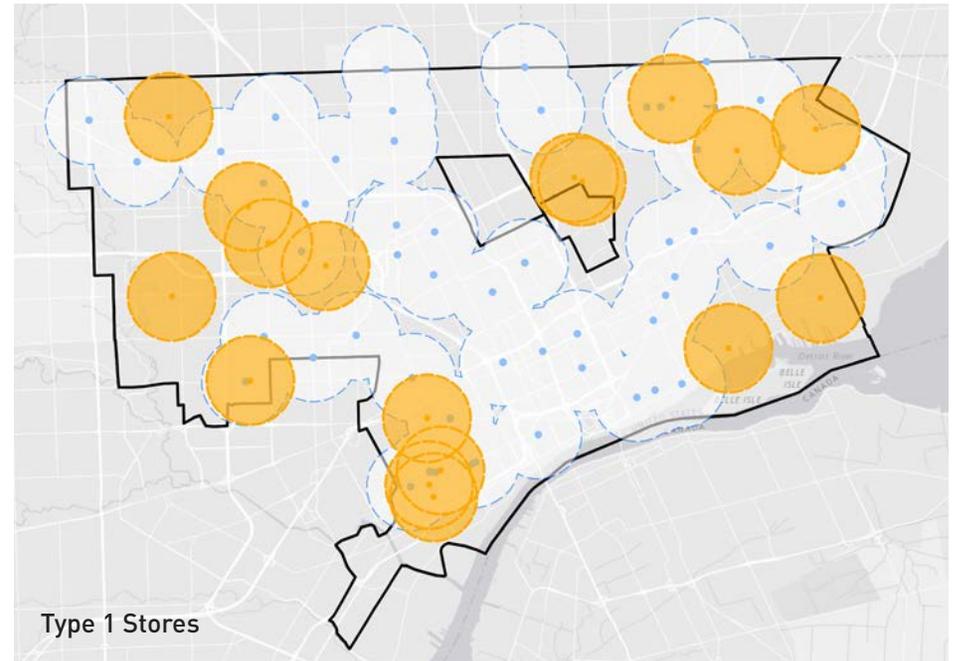
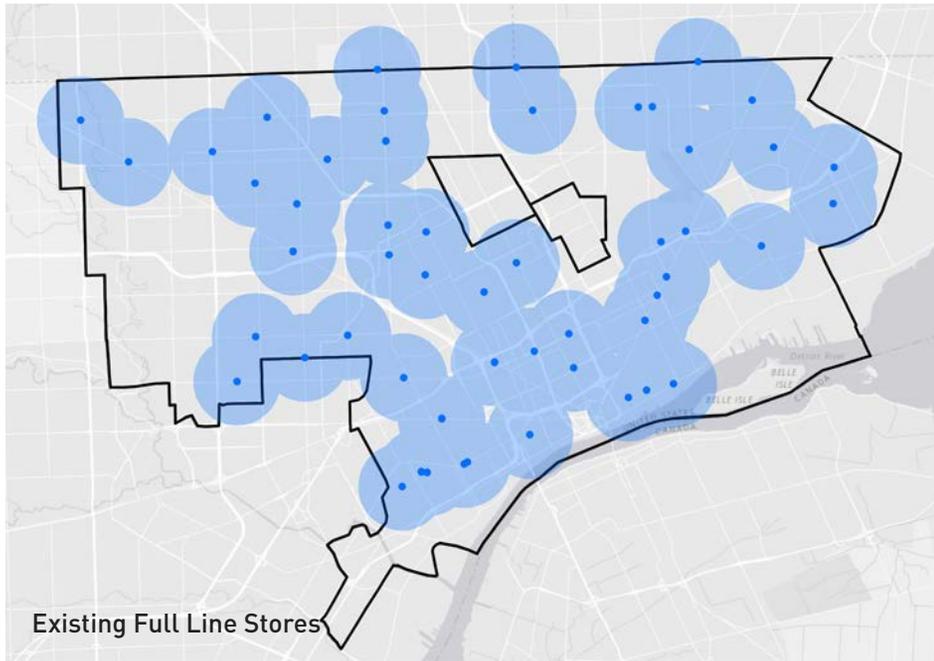


FIGURE 5 Existing and Potential New 1-Mile Trade Areas

Quantitative Analysis Methodology

The quantitative analysis in the market study aims to estimate the market support for additional grocery store square footage in both typologies identified in the spatial analysis. To quantify the size of potential grocery expansion or developments, the methodology includes a demand side analysis, a supply side analysis, and an integrated analysis of the demand and supply.

Based on household spending capacity on foods items, the outcome of the demand analysis is an estimate of the supportable square footage for grocery stores in a trade area. The supply analysis considers the existing size of competing grocery stores in the trade area. The integrated analysis then compares the supportable and existing grocery square footage to determine whether a trade area has a supply gap.

Demand Side Analysis

The estimate of the expenditure potential in the trade areas took into account the prevalence of food assistance programs in Detroit. The average monthly amount of Food Assistance Program (FAP) benefits per recipient in Wayne County was \$134 in both the 2015 and 2016 fiscal years.¹¹ In comparison, the monthly average

amount of assistance per recipient in Michigan totaled \$124 in 2015 and \$121 in 2016.¹² Based on the percentage of FAP recipients available from census data, we calculated the number of recipients in the trade areas of the Type 1 and Type 2 locations. We then computed the spending capacity from the FAP by multiplying the number of recipients with the \$134 monthly average benefits per person.

The gross income of households with food assistance constitutes the remainder of the spending capacity in the trade areas. Using a ratio of persons per household in each trade area, we converted the number of FAP recipients to a number of households. We then subtracted this converted number of households from the total number of households in the trade area to obtain the number of households without FAP benefits. The expenditure potential of these households amounts to 6% of their gross income. The 6% ratio represents the proportion of total household income allocated to “food eaten at home” according to the U.S. Department of Labor Bureau Statistics Consumer Expenditure Survey in 2013, 2014 and 2015.¹³ The “food eaten at home” ratio does exclude non-food items often sold in grocery stores but may be an accurate figure to capture the market share of grocery stores in the Detroit given the prevalence of convenience stores in the city.

11 “Trend Report of Key Program Statistics Through October 2016” (n.d.). Retrieved from https://www.michigan.gov/documents/dhs/DHS-PUB-0064_271204_7.pdf

12 Ibid.

13 “Consumer Expenditures --2015” (n.d.). Retrieved from <http://www.bls.gov/news.release/cesan.nr0.htm>

TABLE 1 Demand Side Analysis (Existing Non-Full Line Stores)

Demand Side Analysis										
	Non-Full-Line Grocery Stores	Total Population	# of FAP Recipients	Expenditure Potential from FAP	Total # of Households	Median Household Income	# of Households without FAP	Expenditure Potential from Income	Total Expenditure Potential	Supportable Square Footage
Large Non-Full Line Stores	Bashar & Mark Brothers Mkt Inc.	16805	8417	\$1,127,938	5665	\$26,075	2827	\$4,596,620	\$5,724,558	19,082
	Joe RnDazzos Frt Vegetable Inc.	13178	5163	\$691,842	4514	\$21,649	2746	\$3,706,051	\$4,397,893	14,660
	Noyer Inc	8769	2497	\$334,542	3443	\$37,954	2463	\$5,828,842	\$6,163,384	20,545
	Pasadena Inc	19458	8716	\$1,167,980	6693	\$29,692	3695	\$6,840,679	\$8,008,659	26,696
	Save-A-Lot Store #24719	13308	6272	\$840,421	4842	\$26,837	2560	\$4,283,665	\$5,124,086	17,080
	Appollo Market Place	19583	5981	\$801,397	7219	\$26,147	5014	\$8,174,576	\$8,975,974	29,920
Small Non-Full Line Stores	Bishr Poultry & Food Center	23784	11128	\$1,491,167	6746	\$24,172	3590	\$5,410,269	\$6,901,436	23,005
	Carniceria Guadalajara	20217	9708	\$1,300,916	5705	\$24,535	2965	\$4,536,417	\$5,837,333	19,458
	Fenkell Super Market Inc.	23847	8559	\$1,146,845	8682	\$40,093	5566	\$13,914,888	\$15,061,733	50,206
	Golden Bengal Seafood Inc.	22483	10547	\$1,413,291	6350	\$24,372	3371	\$5,122,776	\$6,536,068	21,787
	Grand Price Inc.	14103	7326	\$981,736	4949	\$23,420	2378	\$3,472,212	\$4,453,948	14,846
	La Guadalupana Y Carniceria Supermercado	21562	9835	\$1,317,836	5936	\$22,866	3229	\$4,603,339	\$5,921,175	19,737
	Market Indian Village	12041	4185	\$560,822	6106	\$27,881	3984	\$6,925,573	\$7,486,395	24,955
	Mr CS Supermarket	23770	10016	\$1,342,207	7973	\$31,546	4613	\$9,073,452	\$10,415,659	34,719
	Quick Shop Market Inc.	17755	8705	\$1,166,413	5030	\$25,833	2564	\$4,130,116	\$5,296,529	17,655
	Super Mercado La-Piedad	24210	11210	\$1,502,166	6689	\$24,595	3592	\$5,508,132	\$7,010,298	23,368
Trading Incorporated Saad	20722	9909	\$1,327,781	6344	\$24,918	3311	\$5,143,541	\$6,471,322	21,571	

TABLE 2 Demand Side Analysis (Former Stores and New Sites)

Demand Side Analysis										
	Non-Full-Line Grocery Stores	Total Population	# of FAP Recipients	Expenditure Potential from FAP	Total # of Households	Median Household Income	# of Households without FAP	Expenditure Potential from Income	Total Expenditure Potential	Supportable Square Footage
Former Stores	Aldi	10702	5546	\$743,102	4233	\$21,237	2039	\$2,700,521	\$3,443,623	11,479
	Glory Foods Supermarket 1	11168	5735	\$768,468	4318	\$24,021	2101	\$3,146,562	\$3,915,030	13,050
	Glory Foods Supermarket 2	22834	10138	\$1,358,528	6343	\$20,084	3527	\$4,416,485	\$5,775,012	19,250
	Metro Foodland	21952	8212	\$1,100,348	8004	\$37,364	5010	\$11,671,753	\$12,772,100	42,574
	Save-a-Lot	13332	6578	\$881,485	4753	\$22,059	2408	\$3,311,600	\$4,193,085	13,977
New Sites	Location 1	24297	12590	\$1,687,106	8981	\$32,674	4327	\$8,815,923	\$10,503,029	35,010
	Location 2	16241	7987	\$1,070,275	5992	\$22,866	3045	\$4,341,442	\$5,411,716	18,039
	Location 3	13911	5204	\$697,285	4988	\$19,182	3122	\$3,734,437	\$4,431,723	14,772
	Location 4	18776	9265	\$1,241,475	6436	\$23,265	3260	\$4,729,038	\$5,970,514	19,902

The last step of the analysis is to estimate the supportable square footage for grocery stores in each trade area. The total expenditure potential is the sum of the spending capacity from FAP and from 6% of household incomes. We found the supportable square footage by dividing the expenditure potential figures with an average amount of sales per square foot of grocery store. The amount used in this analysis is \$300 and is representative of sales for independent grocery stores¹⁴. The following tables detail the the demand side analysis of Type 1 and Type 2 sites. The trade areas of Type 1 and Type 2 locations show a similar range of expenditure potential from FAP and from household income, and therefore present a similar range of supportable square footage. The supportable square footage ranged from about 14,000 to 50,000 for Type 1 sites and from about 11,000 to 42,000 for Type 2.

¹⁴ “Out with the Old, in with the New: Why the Grocery Landscape is Shifting” (2014). Retrieved from <http://www.us.jll.com/united-states/en-us/Research/JLL-ShopTopic-Grocery-share.pdf>

Supply Side Analysis

The supply in grocery store square footage in a trade area corresponds to the sizes of competing full line and non-full line stores within the trade area. The analysis of existing non-full line stores took into account the square footage of those stores. Although convenience stores are not included in the estimate of supply, the demand side analysis attempts to account for them by solely basing the expenditure potential on the food items carried in grocery stores. The findings of the supply side analysis of the Type 1 and Type 2 locations are shown in the following two tables. The level of competition in Type 1 sites is considerable with the median of a little over 30,000 for the square footage of competing stores in a trade area -- the maximum square footage exceeds 90,000. In comparison, the maximum total square footage of competing stores in the trade area of a Type 2 location reached 25,000.

TABLES 3 AND 4 Supply Side Analysis

Supply Side Analysis				
	Non Full-Line Grocery Stores	Existing Grocery Sq. Ft.	SF of Competing Grocery Stores	Total Grocery Sq. Ft.
Large Non-Full Line Stores	Bashar & Mark Brothers Mkt Inc.	35370	25120	60490
	Joe RnDazzos Frt Vegetable Inc.	30310	38898	69208
	Noyer Inc	21460	0	21460
	Pasadena Inc	24930	37388	62318
	Save-A-Lot Store #24719	49930	19470	69400
	Appollo Market Place	21000	0	21000
Small Non-Full Line Stores	Bishr Poultry & Food Center	5661	30517	36178
	Carniceria Guadalajara	2619	54266	56885
	Fenkell Super Market Inc.	3549	49860	53409
	Golden Bengal Seafood Inc.	1857	34321	36178
	Grand Price Inc.	13630	43249	56879
	La Guadalupana Y Carniceria Supermercado	8207	19795	28002
	Market Indian Village	14080	0	14080
	Mr CS Supermarket	11390	12700	24090
	Quick Shop Market Inc.	4422	52463	56885
	Super Mercado La-Piedad	3313	90439	93752
	Trading Incorporated Saad	7555	21488	29043

Supply Side Analysis		
	Sites	Total Grocery SF (SF of Competing Grocery Stores)
Former Stores	Aldi	0
	Glory Foods Supermarket 1	0
	Glory Foods Supermarket 2	3818
	Metro Foodland	3549
	Save-a-Lot	14688
New Sites	Location 1	22339
	Location 2	8872
	Location 3	25293
	Location 4	15770

Integrated Analysis

To compute the supply gap in each trade area, we subtracted the existing supply calculated in the supply side analysis from the supportable square footage found in the demand side analysis. Out of the 17 locations in Type 1 (existing non-full line stores in areas that lack access to full line stores), only 3 stores had a supply gap in their market area. The supply gap ranged from around 9,000 to 11,000 square feet. As for Type 2 (former grocery stores or underutilized parcels in areas that lack access to full line stores), 8 out of 9 sites showed a supply gap. The gap ranged from around 9,000 to close to 40,000 square feet. The following tables list the results of the integrated analysis. The non-full line stores and the sites with a supply gap in their market area are highlighted in green.

TABLES 5 AND 6 Integrated Analysis

Integrated Analysis		
	Non Full-Line Grocery Stores	Supply Gap
Large Non-Full Line Stores	Bashar & Mark Brothers Mkt Inc.	-41408
	Joe RnDazzos Frt Vegetable Inc.	-54548
	Noyer Inc	-915
	Pasadena Inc	-35623
	Save-A-Lot Store #24719	-52320
	Appollo Market Place	8920
	Bishr Poultry & Food Center	-13173
Small Non-Full Line Stores	Carniceria Guadalajara	-37428
	Fenkell Super Market Inc.	-3204
	Golden Bengal Seafood Inc.	-14391
	Grand Price Inc.	-42033
	La Guadalupana Y Carniceria Supermercado	-8265
	Market Indian Village	10875
	Mr CS Supermarket	10629
	Quick Shop Market Inc.	-39230
	Super Mercado La-Piedad	-70385
	Trading Incorporated Saad	-7472

Integrated Analysis		
	Sites	Supply Gap
Former Stores	Aldi	11479
	Glory Foods Supermarket 1	13050
	Glory Foods Supermarket 2	15432
	Metro Foodland	39025
	Save-a-Lot	-711
New Sites	Location 1	22339
	Location 2	8872
	Location 3	25293
	Location 4	15770

Locations

The identified stores are located throughout the city (see Figure 6), with market areas that reach over 40 different Detroit neighborhoods. The Type 1 locations are generally on the outer edges of the city, while the Type 2 locations occupy more interior portions of the city. Two potential new store locations are actually located in Highland Park and Hamtramck, however their respective market areas extend beyond the boundaries of these two localities and into Detroit—therefore we included them in our study.

Type 1

Apollo Market Place: Located at the boundary between the Seven Mile Evergreen and Greenfield neighborhoods, this existing store is located in the Seven Evergreen Shopping Plaza where other nearby amenities include clothing retailers, a dollar store, mobile phone suppliers, a bank, and several restaurants.

Mr. C's Supermarket: Located at the intersection of West Nichols Road and the Southfield Freeway in the northeastern Denby neighborhood, Mr. C's Supermarket is surrounded by smaller retail storefronts that include a salon, a shoe repair, restaurants, and a gas station.

Indian Village Market: The newest construction of the three Type 1 locations, this store is located in the southeastern corner of the city along Jefferson Avenue. Despite several examples of newer multi-family and neighborhood commercial development, the area is notable for its long city blocks and vast distances between the different development types.

Type 2

New Location 1: Located between the Pembroke and Bagley neighborhoods in the northwestern region of the city, this site would take advantage of an underdeveloped commercial big-box site that has dedicated more area to parking than necessary. Currently occupied by a Home Depot, a gas station, and a Checkers restaurant, the portion of the site that fronts 7 Mile Road could be redeveloped to include a grocery store while still preserving parking in the middle of the site for the existing Home Depot.

New Location 2: This site is located at the intersection of the Grand Meyer and Barton McFarland neighborhoods on Grand River Avenue. Situated on a major road, this location is highly accessible by car and within walking distance of numerous daily amenities such as a pharmacy, three churches, a thrift store, and a check cashing provider.

New Location 3: Located in the city's Southwest neighborhood, this site sits at the intersection of two major roads: Outer Drive and Grand River Avenue. Like New Location 2, it is highly accessible by car, this location is also surrounded by numerous amenities include a pharmacy, restaurants, a bank and check cashing provider, two churches, and a dollar store.

New Location 4: This site at the intersection of 7 Mile Road and Ryan Road in the city's Krainz Woods neighborhood is partially vacant. It is adjacent to Pershing High School, and a small strip mall development with a dollar store and cellular phone distributor. It is also within walking distance of a child care center and church.

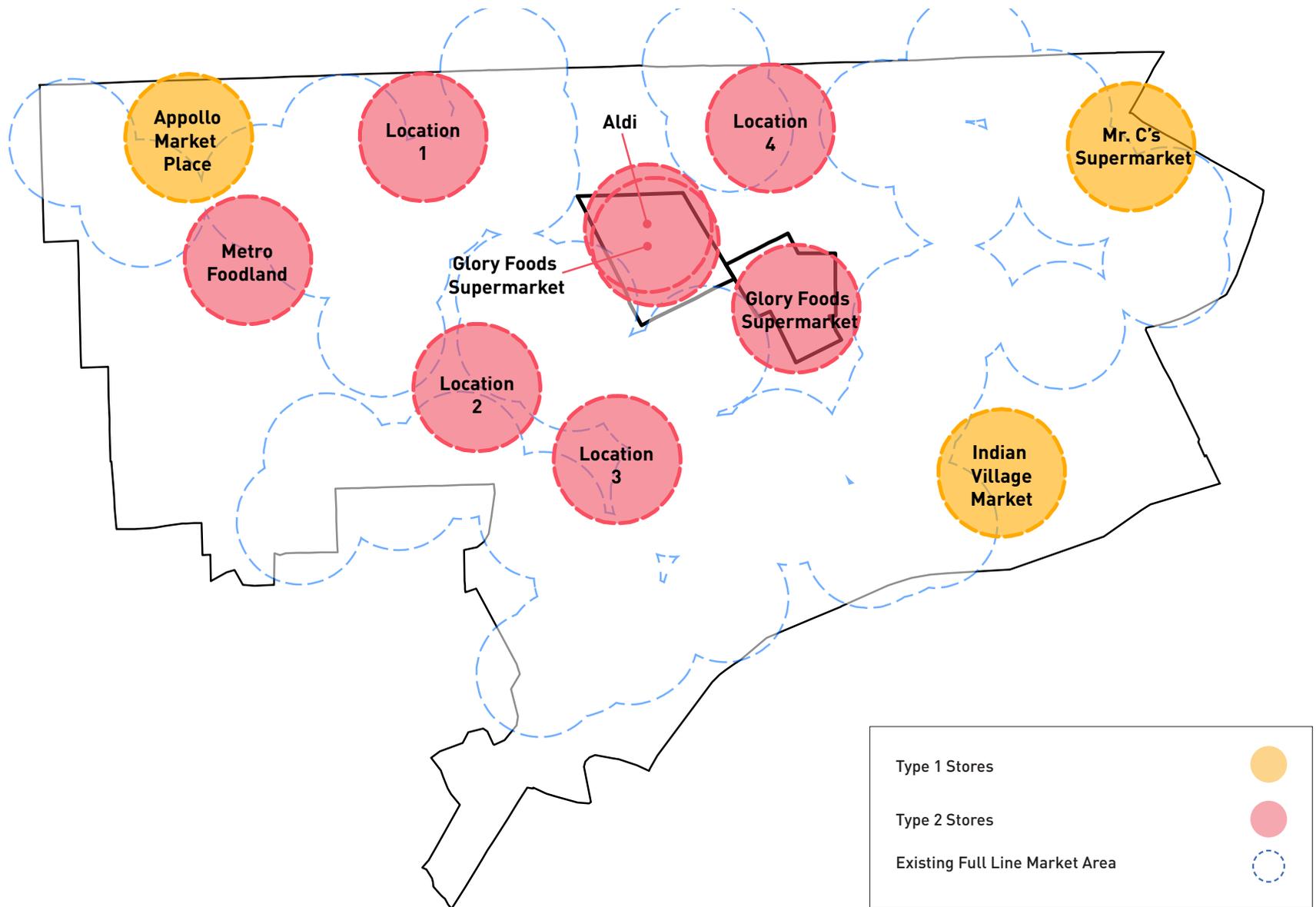


FIGURE 6 Potential New Full Line Locations

III. GROCERY FINANCE LANDSCAPE

As described in the previous sections, we have identified two different kinds of grocery store projects based on spatial and market analysis. Type 1 projects are renovations or improvements to an existing non-full line grocery store, in order to address an existing supply gap. Type 2 projects are new stores, either through new construction on a vacant site or through redevelopment of a grocery store that is no longer operating. Both scenarios assume working with an established grocery businesses, either local or national, rather than a start-up business.

Type 1: Renovations or Improvements to Existing Store

Description of Projects – Existing Stores

Our spatial and market analysis also indicates that there are three locations where improvements to existing non-full line grocery stores to improve Detroit’s food access landscape. While surveying the level and quality of service provision among the non-full line stores was beyond the scope of this project, improvements could include: increasing store footprint, new equipment, increased refrigeration or freezing

capacity, store layout improvements, facade improvements, improvements to customer relations, improved product lines, and nutrition education. Detroit Economic Growth Corporation (DEGC) Green Grocer Program has already succeeded in serving some of these needs.

Finance Requirements

Renovations and improvements to existing stores will require long-term and short-term working capital, fixed asset loans, energy efficiency and retrofit financing, and business technical assistance.

Type 2: New Construction or Renovation of Former Store

Description of Projects – New Stores

We have identified 5 locations that would be suitable for the development of a new full line grocery store of between 15,000-25,000 square feet.¹⁵ These projects fall into two categories: 1) new construction on a vacant lot that meets the criteria established previously¹⁶, and, 2) renovation of a former, vacant grocery store. Anecdotal evidence suggests that the

¹⁵ As described previously, this is the size that Auday Arabo at AFPD suggested are most successful in the independent grocery retail market in Detroit.

¹⁶ Parcels (or clusters of parcels) that are at least 90,000 square feet, vacant or otherwise underutilized, and that are also within a half-mile of another daily amenities

development costs of renovation and retrofit are just as much, or often greater, than the costs of ground-up construction, and both types of projects require much of the same types of finance. For the purpose of this report, these two categories of projects will be treated together.

At an approximate development cost of \$300 per square foot, a 15,000-25,000 square foot store will have development costs in the range of \$4.5-\$7.5 million. This is consistent with local grocery retail development costs for new construction and large-scale renovation.

Finance Requirements

Projects of this type will require a broad range of financing products for both real estate development and business working capital financing, including: predevelopment, construction and development, permanent or real estate mortgage, and fixed asset financing.

Grocery Finance Landscape

We have conducted a broad survey of the commercial real estate and business finance landscape in Detroit, and Michigan more generally, as well as the national healthy food retail finance landscape, to gather information about potential sources available for financing grocery development, improvements, and operations. Anecdotal information from a conversation with Auday Arabo, President of the Association of Food and Petroleum Distributors (AFPD), in October 2016, suggests that finance is

not the significant impediment to grocery retail, as it was in the years closer to the financial crisis of 2008. According to Arabo, private banks are more flexible in lending than during the immediate post recession period, and grocery stores have access to a variety of private loan products, depending on their creditworthiness. However, more information is needed to identify which banks have been most active in lending to grocery stores in Detroit, which products and terms they are offering, which stores are receiving this financing, and if there is a significant gap in any particular type of finance.

Non-bank sources of finance relevant to the two types of grocery projects are described below.

Finance Sources by Source and Type of Product

The following table summarizes available sources of finance for grocery store development, improvements, and operations. Information is provided, when available, about source (originator of finance); product type (working capital, or fixed asset, for example); product (grant, loan); eligibility based on intended impacts; eligibility by use/activity; eligibility by entity; eligibility by geography; terms; and whether the finance product is appropriate for a Type 1 project (renovation or improvement to existing non-full line store), Type 2 project (new construction or renovation of former, abandoned store), or both.

TABLE 7 FINANCING STRATEGIES SUMMARY TABLE

Source	Product Type	Product	Eligibility based on Intended Impacts
Capital Impact Partners	Acquisition, Construction, Development; Permanent/Real Estate Mortgage	New Markets Tax Credits	
	Construction and Development; Permanent/Real Estate Mortgage	Detroit Neighborhoods Fund; Construction or Permanent Loans	Food projects will be located in areas shown to have low access to fresh, healthy foods; preference given to projects that most meet Capital Impact Partners' community impact standards.
	Long-term financing	Loans	Projects must primarily serve persons earning 80% or less of the Area Median Income or be located in low- or moderate-income census tracts.
Commercial Rehabilitation Tax Abatement (PA 210)		Tax incentive	

Eligibility by Use/Activity	Eligibility by Entity	Eligibility by Geography	Terms	Type 1	Type 2
Commercial or mixed use (as long as residential is not more than 80% of project revenue)		Michigan	>\$5M; provide a 15-20% subsidy to the project		x
Eligible Borrowers include multi-family rental housing, mixed use facility and healthy foods retail owners and developers with projects located within the city of Detroit		Detroit	Partnership with JP Morgan Chase		x
Variety of projects that serve low-to-moderate-income people, including charter schools, childcare centers, healthcare facilities, supermarkets, affordable housing, senior facilities and commercial real estate facilities.		National	“\$2-\$20M; 15-25 year term; monthly principal-and-interest payments; rate fixed at closing; First-mortgage lien on project real estate and other forms of collateral will be evaluated on a case-by-case basis and requires a first-priority interest; Maximum 80% LTV “	x	x
For the rehabilitation of commercial property that is at least 15 years old and that has been allocated an NMTC or that has a qualified retail food establishment that sells unprocessed USDA-inspected organic meats, fresh produce, and dairy products; abatement from taxes on new investment; Before a property tax abatement can be approved, an Industrial Development District (new project) or a Plant Rehabilitation District (rehabilitation project) must be established by Detroit City Council.		Detroit		x	

TABLE 7 FINANCING STRATEGIES SUMMARY TABLE (cont.)

Source	Product Type	Product	Eligibility based on Intended Impacts
Detroit Development Fund	Pre-development	Late stage pre-development loan	For commercial developments that stimulate neighborhood revitalization to use toward land acquisition, architectural drawings, construction materials, and pre-sale marketing
	Pre-development	Pre-construction loan	For projects that strengthen commercial districts in predominantly low to moderate income Detroit neighborhoods
	Fixed Asset Financing; Working Capital	Entrepreneurs of Color Fund loans	
	Fixed Asset Financing; Working Capital	Small business loans	
Detroit Economic Growth Corporation Green Grocer Program	Fixed Asset	Loans from CDGB-funded revolving loan fund	Improve the quality of the grocery sector in Detroit; stimulate renewed investment in Detroit's neighborhoods while increasing access to fresh, healthy, local affordable food for Detroit's residents
	Fixed Asset	50/50 matching grants	
	Technical Assistance	Grant	
Economic Development Administration	Economic Adjustment Assistance Program	Gap financing, revolving loan fund capitalization or re-capitalization	For projects that are part of a strategy to adjust or change the local or regional economy, particularly in areas that have experienced or are threatened by changes to the underlying economic base
	Local Technical Assistance Program	Research and technical assistance support from local universities	Projects that "promote economic development and alleviate unemployment, underemployment, and outmigration in distressed regions"
	Public Works Program	Grants and cooperative agreements	Projects that "leverage existing regional assets and support the implementation of economic development strategies that advance new ideas and creative approaches to advance economic prosperity in distressed communities"

Eligibility by Use/Activity	Eligibility by Entity	Eligibility by Geography	Terms	Type 1	Type 2
Land acquisition, architectural drawings, environmental remediation, purchase of materials prior to construction, advance pre-sale marketing, and others	For profit and non-profit developers with track record and capacity	Detroit	\$50K-\$200K; 12-48 months; 6-9% interest rate		x
Infrastructure improvements, model development, and façade improvements	For small-to-medium developers, rehabbers and contractors, also non-profit developers including CDCs and faith-based institutions with track record	Detroit	\$50K-\$200K; 6-24 months; 6-9% interest rate		x
Equipment finance; short-term working capital	People of color-owned businesses	Detroit	\$50-150K; 6-9% interest rate	x	x
Working capital for expansion; equipment financing; accounts receivable financing; business acquisition; marketing/new product development; sales expansion; physical plant expansion; improvements to manufacturing systems; other	For existing businesses with fewer than 50 employees and with annual sales of \$100,000 or more, that have been unable to obtain sufficient financing from traditional sources	Detroit	\$50-150K; 12-48 months; 6-9% interest rate	x	x
Grocery store improvements		Detroit		x	
Grocery store facade and other improvements including architectural features, displace windows, masonry, awnings, windows, painting, etc.		Detroit	Matching grant up to \$50,000	x	
		Detroit		x	
Site acquisition, site preparation, construction, rehabilitation and equipping of facilities for business development or expansion	State, city, local, or federally recognized tribal governments; public or private institutions of higher education, private non-profit organizations	National	\$100,000-\$3,000,000	x	x
Feasibility studies, impact studies	State, city, local, or federally recognized tribal governments; public or private institutions of higher education, private non-profit organizations	National	\$0-\$300,000	x	x
Construction, non-construction, technical assistance and revolving loan fund investments	State, city, local, or federally recognized tribal governments; public or private institutions of higher education, private non-profit organizations	National	\$100,000-\$3,000,000	x	x

TABLE 7 FINANCING STRATEGIES SUMMARY TABLE (cont.)

Source	Product Type	Product	Eligibility based on Intended Impacts
Grocery Wholesaler	Fixed Asset Financing; Working Capital	Contractual agreement	
Healthy Food Financing Initiative - HHS Community Economic Development Program	Pre-development, Acquisition, Construction, Development; Permanent/Real Estate Mortgage; Fixed Asset Financing; Working Capital	Grants	For projects that promote access to healthy, affordable food as well as job creation and economic development.
Healthy Food Financing Initiative - LISC	Pre-development	Pre-development loan	
	Acquisition, construction, development	Loans; mini-perm loans	
	Working Capital; Fixed Asset	Business loans	
Healthy Food Financing Initiative - USDA		Loans, grants, promotion	For projects that increase the demand, availability, and accessibility of locally and regionally produced healthy foods in underserved areas.

Eligibility by Use/Activity	Eligibility by Entity	Eligibility by Geography	Terms	Type 1	Type 2
Grocery wholesaler may provide financing to a grocery store in exchange for a contractual obligation to purchase a certain percentage of goods from the wholesaler		N/A		x	x
	Community Development Corporations	National, underserved areas		x	x
		National	\$100K-\$1M; 3.5-4.5% interest rate		x
Property acquisition; construction		National	\$100K-\$2M; 3.5-4.5% interest rate		x
Working capital; equipment		National	\$25K-\$1.5M; 3.5-4.5% interest rate	x	
Market planning, promotion, infrastructure and operational improvements	Farmers, ranchers, food retailers	National, underserved areas		x	x

TABLE 7 FINANCING STRATEGIES SUMMARY TABLE (cont.)

Source	Product Type	Product	Eligibility based on Intended Impacts
Invest Detroit	Pre-development	Loan	For multifamily, mixed-use housing, or commercial projects with positive community impact
	Acquisition, Construction, Development; Permanent/Real Estate Mortgage; Fixed Asset Financing	Detroit Investment Fund business and equipment loans: term loans, mezzanine loans, bridge, construction	For projects with significant economic impact
	Acquisition, Construction, Development; Permanent/Real Estate Mortgage	Detroit Investment Fund Real Estate Loans	
	Acquisition, Construction, Development; Permanent/Real Estate Mortgage	New Markets Tax Credits	
	Acquisition, Construction, Development; Permanent/Real Estate Mortgage; Fixed Assets	Chase Invest Detroit Fund Loans	Must create a long-term benefit for the community
	Working Capital; Fixed Assets	Small Business Fund Loans	
	Permanent/Real Estate Mortgage	Detroit Investment Fund subordinate real estate loans	

Eligibility by Use/Activity	Eligibility by Entity	Eligibility by Geography	Terms	Type 1	Type 2
land acquisition, environmental reports, legal work, tax credit consultants and fees, site planning and design, appraisals, surveys, construction required to preserve the structural integrity of a building		Detroit; Particularly for Woodward Corridor area; non-profit/community development projects may be city-wide.	\$50K-\$350K		x
Business and equipment loans, business expansion, capital improvements, equipment purchase, real property purchase, working capital needed for expansion, debt refinancing	Feasible business plan that services senior and subordinate debt, 3 years operating/management experience, should result in retention and expansion of employees, must provide 3 years of financial statements and meet various financial conditions	Detroit	\$500K - \$2.5M; senior debt service coverage of 1.20, subordinate debt service coverage of 1.05, maximum 7 year terms with 15 year amortization; subordinate position preferred	x	x
Development of commercial residential real estate and neighborhood retail centers	Experienced developers	Detroit	\$500K - \$2.5M; Land development loans – 5 year terms, up to 20 year amortization with 36 months interest free, 90% LTV; Construction loans – interest only amortization until sale/lease, 90% LTV; Mortgage loans for retail centers – 90% LTV, minimum debt service of 1.05 for total debt, 7 year terms with 20 year amortization		x
Commercial or mixed use (as long as residential is not more than 80% of project revenue)		Michigan	>\$5M; provides a 15-20% subsidy to the project		x
Business expansion, capital improvements, purchasing equipment or real property, commercial real estate development, strategic investments	Project sponsors must have a successful track record, personal investment; a clear exit strategy for the fund, and significant economic impact	Detroit	\$500,000-\$2.5 million loans, 5-7 year terms		
Purchase of inventory and equipment, owner occupied property renovations, project financing, tenant improvements	Businesses with at least 2 employees operating for at least 2 years with revenues above \$150,000 in most recent fiscal year, must have exit plan for funds, meaningful equity invested, and all business assets as collateral.	Detroit	\$50,000-\$750,000 loan, \$175,000-\$275,000 preferred; 5-7 year terms, multiple advance term loans with flexible structure and repayment, fixed interest rate with upfront fee		
For the development of commercial residential real estate and neighborhood retail centers by experienced developers with a commitment for a development loan from a bank or other traditional lender		Detroit			x

TABLE 7 FINANCING STRATEGIES SUMMARY TABLE (cont.)

Source	Product Type	Product	Eligibility based on Intended Impacts
LISC Detroit	Pre-development	Recoverable grants	
	Pre-development	Loans	
	Acquisition, Construction, Development; Permanent/Real Estate Mortgage	Loans	
	Acquisition, Construction, Development; Permanent/Real Estate Mortgage	New Markets Tax Credits	
	Working Capital	Working capital loans and lines of credit	
Michigan Community Revitalization Program	Permanent/Real Estate Mortgage; Fixed Asset Financing	Loans and Grants	Community revitalization that will accelerate private investment in areas of historical disinvestment; contribute to Michigan's reinvention as a vital, job generating state; foster redevelopment of functionally obsolete or historic properties; reduce blight; and protect the natural resources of this state; projects must promote the revitalization of urban area

Eligibility by Use/Activity	Eligibility by Entity	Eligibility by Geography	Terms	Type 1	Type 2
	For profit and nonprofit real estate developers	Detroit	\$25K-\$75K; 0% interest		x
Predevelopment and acquisition for affordable housing, mixed use and commercial, charter schools, health centers, small businesses, early childhood facilities, housing preservation, homeless and/or veterans housing, public housing, healthy food projects	For profit and nonprofit real estate developers	Detroit	Amounts greater than \$25K-\$75K recoverable grant; 1-2 year term		x
Property acquisition; construction for affordable housing, mixed use and commercial, charter schools, health centers, small businesses, early childhood facilities, housing preservation, homeless and/or veterans housing, public housing, healthy food projects	For profit and nonprofit real estate developers	Detroit	<\$3M; 3-7 year term; up to 15 year amortization; in conjunction with other lenders; collateral required		x
Commercial or mixed use (as long as residential is not more than 80% of project revenue)	For profit and nonprofit real estate developers	Detroit	>\$5M; provide a 15-20% subsidy to the project		x
	For profit and nonprofit real estate developers	Detroit		x	
Any alteration, construction, improvement, demolition or rehabilitation of buildings; site improvement; the addition of machinery, equipment or fixtures; and architectural, engineering, surveying and similar professional fees for a project but not certain soft costs of the eligible investment; projects must be located on eligible property, meeting one or more of the following conditions: Facility; Historic resource; Blighted; Functionally obsolete; Adjacent or contiguous to a property described above; or any other property that previously met the conditions as a facility, functionally obsolete or blighted within the last 15 years.		Michigan; must be located in a downtown or traditional commercial center-	Loans up to \$10M but not more than 25% of project; grants up to \$1.5M but not more than 25% of project; grants and loans will include flexible terms and conditions; loan terms and conditions may include below market interest rates, extended grace and repayment provisions, forgivable terms and no security or some security (which may be subordinated)	x	x

Source	Product Type	Product	Eligibility based on Intended Impacts
Michigan Economic Development Corporation	Credit Enhancement	Capital Access Program	
	Credit Enhancement	Collateral Support Program	
	Credit Enhancement	Loan Participation Program	
	Business Loans	Energy Efficiency and Renewable Energy (EERE) loans for Michigan businesses	

Eligibility by Use/Activity	Eligibility by Entity	Eligibility by Geography	Terms	Type 1	Type 2
Program can finance most types of lending with the exception of projects concerned with residential housing or rental property		Michigan	Provides credit enhancement for loans up to \$5 million from any of 15 partner banks; bank lending can be structured as short term, term loans, or lines of credit	x	x
Commercial credit enhancement	Businesses with fewer than 750 employees, must be engaged with a private lender for the purpose of acquiring a commercial extension of commercial credit and must exhibit a shortfall according to lender	Michigan	Supplies cash collateral accounts to participating lending institutions to enhance collateral coverage of borrowers; Can support up to 49.9% of a new extension of commercial credit; maximum participation capped at \$5M; may not be used for extensions of credit greater than \$20M; personal guarantees required from individuals holding 20% or more of ownership interest; 1-3% closing fee; 1-3% annual fee	x	x
Commercial credit enhancement	Businesses with fewer than 750 employees, must be engaged with a private lender for the purpose of acquiring a commercial extension of commercial credit and must exhibit a shortfall according to lender	Michigan	Participates with lenders to finance expansion and diversification projects when borrower cash flows are considered speculative; LPP purchases portion of loan from lender and may offer up to 36 month grace period; Can support up to 49.9% of a new extension of commercial credit; maximum participation capped at \$5M; may not be used for extensions of credit greater than \$20M; can provide reduced or zero interest terms and/or principal repayment on its purchase for maximum of 36 months; 1-3% closing fee	x	x
Projects must: be ready to go no later than 30 calendar days of the loan agreement effective date; reduce energy consumption by at least 20% (building retrofits); purchase equipment for general- and advanced manufacturing of commercially available products (retooling); and contribute to a reduction in greenhouse gas emissions.	Michigan small businesses with fewer than 500 employees	Michigan	\$50-\$350K loans; Interest on approved loans is fixed at 6% for a maximum of 4 years or 4% with a loan guarantee; promissory note, loan agreement and security agreement are required to secure the loan; Michigan Strategic Fund may require a first priority mortgage and/or security position on assets.	x	

TABLE 7 FINANCING STRATEGIES SUMMARY TABLE (cont.)

Source	Product Type	Product	Eligibility based on Intended Impacts
Michigan Good Food Fund	Pre-development	Grant	Provides assistance to healthy food production, distribution, processing, and retail projects that benefit underserved communities throughout Michigan...designed to increase access to healthy food, improve the health of children and families across Michigan, and spark economic development and job creation in the communities that need it most
	Acquisition, Construction, Development; Permanent/Real Estate Mortgage; Fixed Asset Financing; Working Capital	Direct loans	
	Acquisition, Construction, Development; Permanent/Real Estate Mortgage; Fixed Asset Financing; Working Capital	Loans from intermediary	
	Technical Assistance	Grant	
Small Business Association 504 Program	Fixed Asset	Loans	Job creation: small businesses which receive loans must create or retain one job for every \$65,000 provided by the SBA
USDA , National Institute of Food and Agriculture	Community Food Projects Program	Grant	For projects that meet the food needs of low-income communities through comprehensive efforts on food access, farm, and nutrition issues, including through food distribution, increasing participation in federally assisted nutrition programs, or other services, or that help communities become more self-reliant in their ability to do the same.

Eligibility by Use/Activity	Eligibility by Entity	Eligibility by Geography	Terms	Type 1	Type 2
Limited grants available to loan recipients for predevelopment activities		Michigan		x	x
Real estate acquisition, construction and property improvement direct loans; equipment purchase direct loans; permanent working capital, inventory, merchandising or marketing		Michigan	\$250K-\$5M	x	x
Real estate acquisition, construction and property improvement direct loans; equipment purchase direct loans; permanent working capital, inventory, merchandising or marketing		Michigan	<\$250K; through intermediary partners	x	x
Local hiring and business assistance	Available to loan recipients	Michigan		x	
Provides financing for major fixed assets such as purchase of land and/or existing building; purchase of improvements including grading, street improvements, utilities, parking lots and landscaping; construction of new facilities or renovating of existing facilities; purchase of long-term equipment or machinery. Can not be used for working capital or inventory; consolidating or refinancing debt; or speculation or investment in rental real estate.	For small businesses with tangible net worth less than \$15 million and an average net income less than \$5.0 million after taxes for the preceding two years; business must own assets; SBA does not extend financial assistance to businesses when the financial strength of the individual owners or the company itself is sufficient to provide all or part of the financing	National	50% bank loan (senior), 40% SBA (subordinate debenture), 10% firm equity; SBA loan (debenture) originated by SBA-licensed certified development corporation (CDC) such as Michigan Certified Development Corporation; generally the project assets being financed are used as collateral; 10-20 year maturity	x	x
Business development, equipment purchasing, long-term or systems planning, marketing	Public food program service providers, private nonprofits, tribal organizations	National	Community Food Projects: maximum \$125K/year or \$400K over 4 years; Planning Projects: maximum \$35K over 3 years	x	x

The potential sources of grocery store finance shown in Table 7 indicate that there are sources available for a variety of finance needs, including both short-term and long-term finance, and spanning the full array of predevelopment, construction and development, permanent or real estate mortgage, working capital, and fixed asset financing products. Notably, however, there are many Detroit-specific sources of finance that have not been included in the table because of their specific geographic target area. Post-bankruptcy, economic development and commercial revitalization efforts in Detroit have been largely focused on the Woodward Corridor and greater downtown core, although there is a current effort to spread resources to outlying neighborhoods. In particular, tax abatements and other tax incentives have targeted the greater downtown and neighborhood grocery projects are not eligible for this source of finance. Additionally, there are not many sources of grant funding available to grocery businesses.

In the following section, we offer some recommendations about the Michigan Good Food Fund's lending products and approach with the intention of strengthening the program's offerings in relation to the existing finance landscape and the needs of grocers.

IV. FINDINGS & RECOMMENDATIONS

As the market analysis and mapping indicate, there are 8 areas lacking food access but with sufficient market demand where a new store could be built to meet this need, and 3 existing non-full line grocery stores that may benefit from renovations to meet a supply gap in their areas.

Our analysis is informed by a spatial analysis of the food access landscape, a market analysis of areas requiring additional food access, and a general assessment of the economic development finance landscape in Detroit. Our analysis also reflects information gathered from several sources during site visits in Detroit, including grocery store owners, a trade association leader, local researchers, and economic development personnel.

Based on this research, we offer the following additional key findings and associated recommendations:

- Attract new or existing operators to open new locations.
- Perform preliminary site selection with additional criteria.
- Diversify funding sources and partnerships to reduce reliance on New Market Tax Credits.
- Adapt financing products to meet current needs.
- Advance and leverage partnerships with other financing sources.

Attract new or existing operators to open new locations.

While we have identified areas that lack food access or have a food supply gap, it remains unclear how much supply-side interest there is in opening new grocery stores or for existing store expansion from current or aspiring business owners that are experienced enough to meet MGFF's lending criteria. The grocery industry is a specialized, low margin industry that may not attract many new entrants, but the relative lack of competition in Detroit from national chains provides an opening for more independent grocers. Researching this further will help MGFF 1) identify which and how many entrepreneurs, if any, are willing and able to proceed on new store construction or store renovation and 2) which of the other recommendations listed here are most relevant to pursue to build a grocery store project pipeline.

To do this, we suggest starting with owners and operators of existing stores to find out their plans, if any, for expansion, and what needs must be met in order to facilitate action on these projects. Building a relationship with the regional trade association, the Association of Food and Petroleum Distributors (AFPD), can help establish contacts with Detroit grocers that MGFF does not already know. This may involve holding events at

the AFPD headquarters such as focus groups to gather information from storeowners, advertising MGFF and its services in AFPD's publications (such as its monthly magazine, Bottom Line, or its weekly newsletter), or presenting at an industry trade show. In addition, MGFF could conduct outreach to workers in related industries such as farming and warehousing to identify people that may be interested in starting their own grocery business. Following some of the other recommendations, below, could also help grow a pipeline of projects by making MGFF financing more attractive to current entrepreneurs, or, in the case of investing further in workforce development services, helping grow future grocery store owners from experienced employees.

Perform preliminary site selection using additional criteria.

The spatial analysis completed for this report already incorporates some important factors to consider for selecting the specific sites of new grocery stores. These include:

Zoning: parcels must be zoned for produce or food markets (eligible zones are B6, M1, M2, M3, M4 and TM)

Size: parcels must be large enough for a full line store and associated parking and loading

Development: parcels must be undeveloped or underutilized

Colocation: parcels should be proximate to other amenities

Location: parcels should be located along

commercial and transportation corridors

While in-depth site selection analysis was beyond the scope of this report, we offer some additional initial criteria for choosing new grocery store locations from the areas identified by the mapping and market analysis.

Ability to gain site control

More outreach and research will have to be done to ascertain the ownership of the identified parcels, their availability for sale or lease, and their price. In addition to looking to the Detroit tax assessment office or other relevant departments for more information, both DEGC and AFPD keep track of potential development sites which could be consulted for overlaps with the identified parcels.

Cost of renovation vs. new construction

As noted previously, a renovation or retrofit can be more costly than new construction depending on the condition of an existing building with regards to things like structural integrity, pipe and wiring condition, mold, asbestos, and other factors.

The parcels identified by our study consist of undeveloped land as well as existing stores that are no longer in use. Assessments of the existing buildings will be needed to determine which sites to pursue.

Alignment with tax incentives

Detroit has established several districts throughout the city where new or rehabilitated commercial property is eligible for significant tax abatement or other benefits. While the application deadlines or sunset dates for several of these have passed, it is worth checking with DEGC or other agencies whether any of the identified parcels are located in zones with active tax benefits that would make development more affordable.

Alignment with Detroit planning initiatives

The Detroit Future City plan as well as the mayor's push for "20-minute neighborhoods" has established a comprehensive vision for the reinvigoration of Detroit that will shape new development and redevelopment in the city for some time to come. Increased coordination among funders and development agencies will funnel resources to certain areas of the city beyond downtown that may benefit potential MGFF grocery store projects. Beyond downtown, Midtown, and Corktown, areas identified by the Detroit Future City plan as employment districts include Southwest, Mt. Elliot, Dequindre/Eastern Market, and McNichols, as well as secondary districts in Westfield, Lyndon, Livernois, I-96, and

Upper and Lower Conner Creek.¹⁷ The mayor's 20-minute neighborhood initiative is initially focusing on four neighborhoods in 2017: the West Vernor corridor in Southwest Detroit, the Grand River corridor in Northwest Detroit, Islandview and along the east riverfront, and the Rosa Parks-Clairmount neighborhood.¹⁸

Operator preference

Our site visits highlighted the importance of store operator experience and local knowledge to the success of a grocery business. The ability to understand, predict, and respond to consumer grocery needs and preferences has implications for a store's inventory, sales, and reputation. When interested entrepreneurs have been identified for the areas that currently lack but could support a new store, it would be helpful to ask which communities they are familiar with, who they have ties with for supplier and employee relationships, where they know of upcoming economic and social activity, and how these pieces of information align with where they would like to operate among the potential sites.

¹⁷ Detroit Future City: Detroit Strategic Framework Plan. (December 2012). Retrieved from https://detroitfuturecity.com/wp-content/uploads/2014/12/DFC_Full_2nd.pdf.

¹⁸ Thibodeau, Ian. "City using \$1.6M for work in four parts of Detroit." (December 2, 2016). The Detroit News. Retrieved from <http://www.detroitnews.com/story/news/local/detroit-city/2016/12/02/city-neighborhood-investment/94811336/>

Diversify funding sources and partnerships to reduce reliance on New Market Tax Credits.

MGFF asked us to investigate how food access project financing that does not involve or depend on New Market Tax Credits (NMTC) for significant funding might look given the highly competitive, and thus potentially unreliable, nature of this program. Although the program was reauthorized in 2015 through 2019 and total allocations of \$7 billion were recently announced, concern about the stability or accessibility of the program may be doubly warranted given that the incoming administration and congressional leaders have indicated that major tax law changes are a priority agenda item. New federal legislation could eliminate or significantly scale down the NMTC program and make funding even more competitive in the future.

Our review of grocery store financing cases shows that the majority of store projects rely heavily on NMTCs to defray costs for investors (up to 39%) and the project itself (15-20%), but that even with this funding source, extensive gap funding is needed to complete projects. Moreover, as a Boston-area developer involved in a mixed-use project with a grocery store shared, “New Markets Tax Credits is a terribly complicated and inefficient program, but it’s the only game in town.” As this comment indicates, there are no equivalent programs that can be expected to have the same effect in terms of the scale of development spurred or amount of financing provided. Nevertheless, there are other sources

of funding or subsidies that may partially replace NMTCs, including the Michigan Community Revitalization Program (CRP), Detroit Community Development Block Grant (CDBG) funds, Tax Increment Finance (TIF) district funds, tax abatements, and foundation grants.

Despite these alternatives, grocery store owners may have to take on significantly more private debt to complete a new store or renovation, particularly in weak market contexts like Detroit. Indeed, even with NMTCs to assist the project, the owners of Tropical Foods, an independent grocery store chain targeting ethnic foods, had to triple their debt to \$6 million to complete a new store in the Jamaica Plain neighborhood of Boston.¹⁹ Since such high private debt may be prohibitive for otherwise viable projects, MGFF may need to provide larger amounts of equity or partner with more CDFIs and programs to replace NMTC equity availability. This may involve hosting a roundtable or smaller forums with area foundations, CDFIs, and city agencies to assess interest in targeting such resources to grocery stores by creating set-asides or otherwise coordinating loan and subsidy packages.

¹⁹ Conversation with Russ Tanner, Vice President of Real Estate at Madison Park Development Corporation. For more information, see “Madison Park Development Corporation Begins Renovation on Historic Tropical Foods Building.” (May 24, 2016). Retrieved from <http://www.madison-park.org/press/madison-park-development-corporation-begins-renovation-on-historic-tropical-foods-building/>

Adapt financing products to meet current needs.

As noted previously, we found anecdotal evidence that capital from banks is now more accessible than it has been in the years since the Great Recession. In fact, access to affordable financing was not a top priority among the industry actors we spoke with in Detroit because traditional lending conditions have improved. Rather than compete with banks or other sources, MGFF could utilize its resources to fill important gaps in the food access finance landscape. In particular, there is a need for financing to businesses and entrepreneurs based outside of the Woodward Corridor and downtown area, to new grocery store or food access start-ups (which would represent a shift in eligibility standards for MGFF resources), and increased grant funding. In addition, more research and outreach to area banks to find out, if possible, which operators they are lending to, could help find gaps in terms of specific stores that are not able to access traditional capital sources. We also find significant need for more workforce development and business development support, as elaborated below.

Workforce Development

In our review of the financing landscape in Detroit, we found an abundance of options for construction or equipment related needs but there was little mention of funding available for workforce development and training activities. While such needs might be addressed with working capital financing, this tool is usually

used as a result of increased capital needs due to increased capacity from new construction. Store owners may not want or need to expand their stores or be able to show the benefit of improved training and investment in their staff to access such funds from most lenders. However, we heard during our site visits in Detroit how important skilled and experienced staff, particularly department managers, are to the success of a store. A grant to fund grocer related management skills training could help stores retain their most valuable staff, spend less on turnover, maintain or improve record-keeping standards and overall store quality, and improve a store's bottom line.

Business Development

Establishing a pipeline of projects may be a challenge, but in the event that there is a pool of eligible and interested entrepreneurs, another area of need is business development assistance. By this we mean help, in the form of financial and/or technical assistance, with the process, including site selection, parcel assembly, permitting, etc., and associated paperwork of new store construction or renovations. For example, an established grocery store owner may be interested in opening another location, but may lack the capacity to initiate and manage the process. Again, while MGFF's working capital financing may help address this issue, it would be worth reexamining the offerings to gauge how well they address these needs and whether more technical assistance should be incorporated, especially in pre-application outreach to potential clients.

Advance and leverage partnerships with other financing sources.

Our research and report largely focuses on financing larger, real estate driven, traditional grocery store projects due to the expertise and focus of MGFF's managing partner, Capital Impact Partners. However, given the lack of information about entrepreneurs that might form a project pipeline and the supposed ease of securing financing from traditional and alternative sources we heard from our site visits, MGFF may be more effective in the interim by channeling its resources to its intermediary partners for lending below \$250,000. These intermediaries, such as Northern Initiatives, may be better suited to meet the smaller scale financing needs of grocers or other entrepreneurs that can contribute to healthy food access. Similarly, as traditional financing from banks becomes more available or entrepreneurs draw upon some of Detroit's other alternative lending sources, MGFF may not need to be in the primary lending position, even on larger projects.

In addition, rather than expend its resources on projects that may not best meet its mission and expertise, MGFF could direct current clients or applicants to other financing sources. For example, the Detroit Economic Growth Corporation (DEGC) Green Grocer Program has already assisted several grocery stores with facade improvements that may not make sense for MGFF to take on. DTE Energy's incentive grants for energy efficient equipment retrofits

may also be a more attractive financing source rather than loans for businesses interested in upgrading their equipment. By referring clients and applicants to these other sources, MGFF will be able to focus its time and resources on the projects it is best suited to serve or those in other areas of Michigan.

V. CONCLUSION

In sum, our review of the food access, market, and finance landscapes in Detroit found that areas of low food access, high need, and sufficient market demand that could support a new grocery store or expansion do exist, and these contexts suggest that MGFF could continue to be an effective financing source and partner for such projects with some adjustments. These include preparing for a shift in the availability of NMTCs and traditional financing sources by changing financing structures to include more grants, increasing loan amounts, changing loan terms to be more competitive, and potentially developing new products for specific needs such as workforce development activities or partnering with more alternative funding sources to layer funding and provide technical assistance at more appropriate scales.

It is important to underscore that our analysis has focused on financing traditional grocery stores of 15,000-25,000 sq. ft. both because of the context of projects that have recently been approved, as well as of the specialization and orientation of MGFF and Capital Impact Partners. This orientation means that while smaller scale stores (such as City Market) or other retail formats (such as farmers markets) might also be feasible and effective methods of meeting the needs of the identified areas, more research that this report does not address may be necessary to establish

recommendations for these possibilities. In addition, this study identified potential sites using the assumption that 90,000 sq. ft. sites were appropriate for accommodating larger stores as well as parking. As a result, the identified sites could support co-located services in the remaining space not taken up by the grocery store and parking. Given that our analysis also takes the proximity of neighborhood amenities into account, special consideration should be given to which kinds of businesses would best add value in these locations. There may also be many other smaller parcels in these areas that could be good sites for standalone stores of this size that we have not specifically called out.

Furthermore, this study does not incorporate other more qualitative experiences or perceptions, such as discriminatory practices or behavior by store management or staff, which also affect food access. While beyond the scope of this report, these issues can and should inform the criteria by which MGFF cultivates a project pipeline and selects projects moving forward as well as the kinds of technical assistance or programmatic funding it or a partner may provide.

Finally, given the focus of this report on mid-size traditional grocery stores, the limited number of identified sites, and the potential

challenge of establishing a pipeline of projects with experienced operators, it may be worth considering other areas beyond retail that affect food access and associated program goals, such as economic development and generating local employment opportunities, for more attention from MGFF. These may include issues like warehousing, local sourcing, local hiring, and others. Although these are currently represented in MGFF's funding areas and priorities in different ways, it seems they have not been the focus of development projects to the extent or scale that traditional grocery store retail has been in MGFF's portfolio. Another area of interest, which came up repeatedly throughout our study, could be to research why alternative grocery retail formats, and particularly mobile grocery markets, have failed to date in Detroit. Assessing the conditions which contribute to this failure, and how to address them, could yield beneficial results in food access and business development by helping MGFF identify less risky projects.

MGFF has been and continues to be a critical piece of the finance landscape for the broader food access system in Detroit through grocery store financing and beyond. It is our hope that this report proves useful to MGFF in service of its mission to increase healthy food access in underserved areas and thereby contribute to the city's ongoing revitalization.

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