the deal book:

Golaski Labs

Authors: Evan Weiss and Bruce Katz
The Nowak Metro Finance Lab created the Dealbook as a product to deeply analyze the capital stacks and incentives required to execute innovative urban development projects, with a goal of helping practitioners adopt and adapt national strategies for capitalizing projects with positive community impact.

Know of a deal we should examine?
Let us know at lindyinstitute@drexel.edu.

About the authors

**Evan Weiss** is the Senior Advisor for Public Finance in the administration of Governor Phil Murphy of New Jersey. He has published several articles on Opportunity Zones and has worked on early initiatives to use the incentive to build schools, affordable housing, and invest in high-potential tech, life sciences, and small businesses in order to build community assets.

**Bruce Katz** is the inaugural director of the Nowak Metro Finance Lab at Drexel University and the co-author (with Jeremy Nowak) of The New Localism: How Cities Can Thrive in the Age of Populism. The mission of the Nowak Lab is to help cities design, finance and deliver transformative initiatives that promote inclusive and sustainable growth. Bruce also serves as a Partner with Accelerator for America. In all these roles, he regularly advises global, national, state, regional and municipal leaders on public reforms and private innovations that advance the well-being of metropolitan areas and their countries.

**Nowak Metro Finance Lab**

The Nowak Metro Finance Lab was formed by Drexel University in July 2018. It is focused on helping cities find new ways to “finance the inclusive city” by making sustained investments in innovation, infrastructure, affordable housing, quality places, and the schooling and skilling of children and young adults. It is situated within the Drexel University’s Lindy Institute of Urban Innovation.

**Accelerator for America**

Accelerator for America is a non-profit organization created by Los Angeles Mayor Eric Garcetti in November 2017. It seeks to provide strategic support to the best local initiatives to strengthen people's economic security, specifically those initiatives that connect people with existing jobs, create new opportunities and foster infrastructure development.

**Mosaic Development Partners**

Mosaic was established in 2008 with the intention to help revitalize neighborhoods and marginalized communities. Working through in one of the most difficult economic recessions, its founders, Leslie Smallwood–Lewis and Gregory Reaves, remained persistent, faithful and focused. Then and now, they focus on building new ideas, especially in locations where solutions aren’t obvious. They build with community and cultural sensitivity in mind. Mosaic Development Partners hire professionals and others who have been historically excluded from this industry and seek to bring solid returns to their investors and lenders.

Mosaic Development Partners: Leslie Smallwood–Lewis (Left) and Gregory Reaves (Right)
“Even at its height”, said John Golaski, the former owner of the Philadelphia, Pennsylvania site that is set to become Mosaic Development Partners’ 40,000 square foot Golaski Labs mixed use project, “this was just a 9-5, Monday through Friday neighborhood. Everything was locked up on the weekends.” Today, and for the last thirty years, the Wayne Junction neighborhood has been one of the many across Philly that was hit hard by deindustrialization and racially-biased lending practices like red lining. In the past few years, the Northwest Philly neighborhood is just starting to see some momentum. Many people in the Philadelphia real estate industry told the Golaski’s they should tear down their father’s now vacant factory and build a big box store; it would just make the most financial sense to do it that way. But the dream of Mosaic’s Golaski Labs project, now finally underway, is to turn the Golaski’s former chemical factory in a formerly industrial neighborhood into one of the premier 24/7, 365 mixed-use green projects in Philadelphia, hosting amenities like a co-working space, a restaurant led by a celebrity chef, the first black-owned brewery in the city, advanced modular construction, and smart rooms with features like voice-controlled appliances. It is also one of the first Opportunity Zone projects in the United States.

Golaski Labs is the first project in Accelerator for America’s and Drexel University’s Nowak Metro Finance Lab OZ DealBook series, which takes deep dives into the nuts and bolts of the first—as well as the most illustrative and interesting—Opportunity Zone deals. Not all these deals will be pretty: some will be within the spirit of the law, achieving significant impact and genuinely benefiting the community, but others will not. With
Golaski Labs, we can see how a great project, a great community, and a great team came together to make a long dreamed of project a reality—all while realizing impact and equity, significant community benefits, and meaningful financial return. Although Golaski Labs was well on its way before the U.S. Impact Investing Alliance and the Beeck Center for Social Impact + Innovation at Georgetown University’s Opportunity Zone Reporting Framework were published, the project meets the core standards of those guidelines.

While Opportunity Zone capital made this deal happen (and happen faster), it didn’t make it possible—more important was an allocation of New Markets Tax Credits from the Philadelphia Industrial Development Corporation (PIDC), one of the nation’s most inventive economic development agencies that represents a true partnership between government and business. Golaski Labs’ Opportunity Zone equity didn’t come any cheaper either. But what it did do was create a new source of equity for the developer to tap into, jumpstarting a deal that could have taken much longer to get off the ground without it, and ensuring Mosaic could become the senior partner in the project. Capital that probably never would have made its way to a less than $8 million deal in a out of the way neighborhood in Philadelphia was able to find that deal, changing Golaski Labs from another transaction to a transformative project.

A rendering of the proposed development (right) adjacent to the existing Laboratory building (left).

Image credit: https://www.smallchange.com/projects/Golaski-Labs
Wayne Junction

Wayne Junction is like many of the 82 Opportunity Zones in Philadelphia and the 8,700+ around the country. The name comes from its historic status as an important freight and passenger rail hub for the city, which helped develop the neighborhood into an industrial powerhouse for generations. De-industrialization hit the neighborhood hard, and most of the small factories and workshops that called the neighborhood home have disappeared, leaving a poverty rate of over 30 percent and significantly fewer jobs in the neighborhood than its industrial heyday. The neighborhood, like so many in Philadelphia and cities around the country, has a long legacy of being redlined and the target of other racially-biased housing and finance policy.

Capital follows capital. And private capital follows public capital, too. In many ways, the catalyst for Wayne Junction’s turnaround was a 2015 $31 million restoration of the Southeastern Pennsylvania Transit Authority (SEPTA) station that gave the neighborhood its name. SEPTA is the 5th largest city and suburban commuter rail system in the country and Wayne Junction Station serves 190,500 riders a year. SEPTA’s upgrades allowed the station to solidify its status as a crucial transfer point for five regional rail lines, as well as connections to one trolley and two bus routes.

A lot of thought has gone into how the public sector can best drive Opportunity Zone investment (including our own). Much of it focuses on what governments can do to directly impact OZ deals through strategies like tax incentives, fast tracking entitlements, and serving as a clearing house. Another strategy might be to follow public investments—even if they look different than Opportunity Zone investments—rather than focusing on what amount to set other public tax expenditures, such as state and local enterprise zones or tax abatement districts. While Philadelphia’s blanket ten-year property tax abatement helped the project and helped keep rents lower, the neighborhood making investment from SEPTA was much more critical to the economics of the project.

Wayne Junction sits between the Nicetown-Tioga and Germantown neighborhoods in the near northwest portion of Philadelphia, and is a multi-modal transfer point for several SEPTA regional rails and buses.

Image credit: Google Earth
Another developer, Ken Weinstein, long a major player in Northwest Philadelphia, also unveiled plans in the summer of 2018 for a significant redevelopment that includes rehabbing seven vacant sites in the neighborhood for residential, commercial, and restaurant uses—all, unsurprisingly, clustered around the SEPTA station. His plan, as well as Mosaic’s, also fits within the broader framework of the City’s comprehensive plan, Philadelphia 2035, and PIDC’s work in the community. In August 2018, the Pennsylvania Historic Preservation Review Board also approved the local Philadelphia Historical Commission’s request to create the Wayne Junction National Historical District, which is centered around the SEPTA station and includes eight factories and warehouses built between the late 1800s through the mid-20th century. Weinstein’s beginning $12 million proposal will leverage the Historic Tax Credits resulting from the designation.

**Edison Square**

After hearing buzz about Opportunity Zones for months in the summer of 2018, Leslie Smallwood-Lewis quickly checked Novogradac’s website and figured out that four of her pipeline projects were in Opportunity Zones—including Golaski Labs. Leslie, along with her partner Gregory Reaves, run Mosaic Development Partners, a mid-sized Minority Business Enterprise development firm based and rooted in Philadelphia founded in 2008. Mosaic came up doing small and medium deals around Philly, partnering with larger majority developers in distressed neighborhoods, who had more liquidity, bigger balance sheets, and established relationships with banks. Mosaic’s

![An aerial depiction of the Edison Square redevelopment in North Philadelphia.](https://www.mosaicdp.com/edison-64)

*A rendering of Edison 64, the Phase 2 development of Edison Square. The development consists of 68 units of veterans housing and is the former annex of Edison High School.*

*Image credit: https://www.mosaicdp.com/edison-64*
breakthrough deal was 2014’s $13 million Edison Square project in North Philadelphia, which repurposed the 3.6-acre, 500,000 square foot abandoned Edison High School site and built a shopping center anchored by a supermarket in what had been a food desert.

**Eastern Lofts**

The next major project for Mosaic was the $8 million Eastern Lofts project in Philadelphia’s Strawberry Mansion neighborhood, which would have been an Opportunity Zone project had it happened a few years later. Using both Historic and New Markets Tax Credits, Mosaic rehabbed the 30-year vacant Railway Express building, creating 37 residences, a parking garage, 8 office spaces, a community-based childcare center, and a coffee shop.

Eastern Lofts helped make Mosaic’s name and is, in fact, what got the Golaski family interested in partnering with Mosaic, after connecting through a broker. What they saw in Eastern Lofts was a chance for the Golaski’s to convert its own former industrial site into a mixed used, community-facing—and community-benefiting—investment. Not only did Mosaic have experience with similar development projects, but it also aligned with the Golaski family’s mission. Mosaic also had a deep understanding of a very important aspect of development that would be key for Golaski Labs: complicated, tax advantaged structures. Not only did they know how to do these types of deals, but they knew who they needed to call to help.
In the 1990s, Dionne Savage was practicing as a corporate attorney in Philadelphia, specializing in corporate and transactional work, primarily in the banking and insurance industry. But as soon as she heard about the newly enacted New Markets Tax Credit program in the early 2000s, she left the corporate law world and turned to economic development, hoping that she could leverage her expertise for the clients and communities that needed it most. She built up her economic development experience working with the Philadelphia-based Reinvestment Fund, on projects from charter schools to small businesses, and viewed her role as a translator between the web of community development programs and the people who are supposed to benefit from them.

Dionne first got to know Mosaic during the Edison Square shopping center project, where she worked with banks, PIDC—a unique non-profit, jointly founded and governed by the Chamber of Commerce for Greater Philadelphia and the City of Philadelphia—to put together the complicated New Markets Tax Credit structure. She then worked with Mosaic on Eastern Lofts, which not only had New Markets and Historic Tax Credits, but also state grants and subordinate loans that needed to be woven into the complex deal.

Not long after finding out about the Opportunity Zone designations, Leslie, Dionne, and PIDC got to work. As a medium-sized developer, Mosaic couldn’t easily buy and hold properties. That meant most of the deal needed to be choreographed and planned out ahead of time; the project had to work now. Over the next few months, Mosaic went back and forth with the Golaski family and the outline of the deal was defined in the early fall of 2018. Luckily, the City of Philadelphia was aware of the project; so was the local Councilwoman, Cindy Bass, who was supportive. It was also already zoned CMX-3, a designation for commercial mixed-use properties outside of Philadelphia’s downtown core. In addition, because of Philadelphia’s blanket 10-year property tax abatement, Mosaic did not need to go through any special process to achieve the project’s most significant local incentive. Environmental and other inspections had already
been made and, while there were some issues, there were not any showstoppers.

Given the market dynamics of Wayne Junction, rent levels, and project costs, Golaski Labs needed to delicately piece together an elaborate capital stack—not just to make the project pencil financially, but to maintain a commitment to the community. Mosaic’s entire approach depends on strong community buy in, in large part gained by actually delivering community needs. The same was true for Golaski Labs. Mosaic’s operating philosophy is focused on “Gentrigation”, a term coined by them, which means “the process of improving the quality of the housing infrastructure and overall economic impact of historically impoverished communities without substantially displacing the families who live in those communities.” For months, Leslie and the rest of the Mosaic team met with members of the community to determine what they were looking for, going through the existing Registered Community Organization and a neighborhood church. They also used email blasts by leveraging community lists, as well as dedicated Facebook pages. And, while a community-centered approach is part of Mosaic’s core mission, meeting community needs is actually part of the requirements of the New Markets Tax Credit— unlike Opportunity Zones.

Golaski Labs’ 35 units will be targeted to those making 80 percent to 120 percent of area median income, often called “workforce housing”. Of that range, 30 percent will be reserved for those making 80 percent of area median income. There will also be a brewery paired with an open kitchen studio/restaurant operated by famed Brooklyn chef Sylvie Senat, a multi-cultural co-working space to serve as an incubator and training facility for start-ups, early stage, and established business entities, and the new headquarters of Roof Meadows, a woman-owned landscape architecture and civil engineer design firm specializing in green roofs. There will also be a culinary arts internship program through the restaurant, makerspaces, and below market rents for community entrepreneurs. DiverseForce will also be a partner, which is a Philadelphia consultancy dedicated to helping firms recruit, develop, and retain diverse boards of directors. Finally, a neighborhood coffee shop is planned.

Beyond being a project that serves the community, community members actually have a financial stake in Golaski Labs. Large and medium-sized investors that Mosaic found through community networks were able to come in as equity partners. Using the online crowd-funding platform Small Change, investors from the community and around the world were able to get an equity stake in the deal by investing as little as $500.

<table>
<thead>
<tr>
<th>Investment</th>
<th>Number of Investors</th>
<th>Amount</th>
<th>% of Deal</th>
</tr>
</thead>
<tbody>
<tr>
<td>NMTC</td>
<td>1</td>
<td>$2,300,000</td>
<td>30.3%</td>
</tr>
<tr>
<td>US Bank Grant</td>
<td>1</td>
<td>$15,000</td>
<td>0.2%</td>
</tr>
<tr>
<td>Equity</td>
<td>40</td>
<td>$1,284,000</td>
<td>16.9%</td>
</tr>
<tr>
<td>Traditional Equity</td>
<td>5</td>
<td>$850,000</td>
<td>11.2%</td>
</tr>
<tr>
<td>Crowd Funded Equity</td>
<td>29</td>
<td>$34,000</td>
<td>0.4%</td>
</tr>
<tr>
<td>OZ Equity</td>
<td>6</td>
<td>$400,000</td>
<td>5.3%</td>
</tr>
<tr>
<td>Fulton Bank Loan</td>
<td>1</td>
<td>$4,000,000</td>
<td>52.6%</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td></td>
<td><strong>$7,599,000</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: Mosaic Development Partners
For the rest of the equity raise, Mosaic talked to a number of institutional investors who believed the structure needed to change, primarily by watering down Mosaic’s stake. But Mosaic didn’t want to sacrifice their goal of being 100% general partner in the project, a key for their continued drive to build up capacity. In part thanks to the added attention brought by the project’s status as a Qualified Opportunity Zone investment, Mosaic was able to identify a broader source of equity, which was more flexible in their requirements and cared more deeply about Golaski Labs’ underlying mission. One of the major Opportunity Fund investors had just sold several Dunkin Donuts franchises in the region and used that capital gain as the qualifying investment. Another was a Maryland based group that had already setup an Opportunity Fund and was looking for ways to deploy its capital. Overall, Opportunity Fund equity was 31 percent of the equity and 5 percent of the total Golaski Labs deal. It wasn’t that the Opportunity Fund made the equity any cheaper, but it did have the effect of filling a gap, which, if filled the conventional way, would have substantially changed the shape of the project and limited Mosaic’s role.

Fulton Bank’s Jeanne Fields also played a critical role in Golaski Labs as the main lender. Jeanne knew Leslie from the ParkWest Town Center, a shopping center in West Philly near Fairmount Park, and her own work on the board of the West Philadelphia Financial Services institution. Fulton Bank is a large regional bank with $20 billion in assets, based in Lancaster, Pennsylvania, and with offices in four other states. Jeanne and the Fulton team had seen Mosaic’s growth and was willing to partner on Golaski Labs. PIDC also worked closely with Fulton to help detail Mosaic’s capacity and experience, serving as a vital validator for the developer. But, at the end of the day, Fulton wasn’t going to get comfortable without the level of equity Mosaic was able to bring to the table, which it could do thanks to the New Markets Tax Credits equity from PIDC, the Opportunity Fund investors, a contribution from the New Markets investor, US Bank, and a major investment from the City Trust, which manages the estate of Steven Girard, the richest man in early in America.

“The project is being funded using new market tax credits and a crowdfunding platform to help encourage small local investment.”

To get everything to work together, a complex web of entities needed to be set up. New Markets Tax Credits on their own are famous for requiring complicated financial structures, meaning that projects under $5 million typically aren’t even worth the transaction costs and the effort; adding in an Opportunity Fund made it even more challenging. While one option would have been for the New Markets Community Development Entity (in this case, PIDC) to be the same as the Opportunity Fund, that proved too complicated since, in effect, the Community Development Entity would be an equity partner with the borrower and would likely unable to meet the requirements for an “arm’s length” transaction. Instead, the NMTC borrower, Golaski Labs, LP, brought in equity by offering partnership interest to the Mosaic Opportunity Fund LP and Mosaic 4537 Wayne Avenue, LLC. This side by side interest allowed the NMTC to go forward, while allowing both Opportunity Fund equity and non-Opportunity Fund equity into the deal, easily. This way, the NMTC investor can be refinanced out after seven years, in compliance with the NMTC law, but the Opportunity Fund and other equity investors can maintain their interests until at least the tenth year. This structure is not too different from how NMTC and Historic Tax Credits have been twinned in other deals. Overall, equity partners are expected to get an 8.5 percent preferred return for ten years, or until reaching a 3.2 multiple. Since the project was open to both accredited and non-accredited investors, many types of disclosure documents needed to be drafted. Many Opportunity Fund deals skip this step, since they are often done by individuals or small, private groups.

What made Golaski Labs work as one of the first impactful Opportunity Zone deals in the country? First, the project was basically shovel ready. Buyer and seller were already matched and had their interests aligned around a vision for the project. The community was on board, as was the local City Councilwoman. The zoning was right and environmental issues were minimal. The local tax incentives were all set to go, too. While the residential tenants of course needed to be found, most of the commercial and community uses had been identified.

“Golaski Labs is a $7 million, 45,000 sf mixed use development, located in the historic Philadelphia community of Germantown.”

Second, Mosaic was an experienced developer. They had done several similar projects in the past and were ready to continue ramping up their capacity by taking larger and larger stakes in their projects, moving from the junior to senior partner. More than that, they knew the community and knew how to navigate the confusing web of incentives and tax credits that make deals like Golaski Labs work. Mosaic also had a network of potential equity partners and an ability to innovate by using new platforms, like Small Change, to find more. Institutional, Opportunity Fund, and other equity investors could see their track record; entities that had worked with them before, like PIDC, could also credibly vouch for them.

Third, Golaski Labs had an experienced team of professionals behind it. Beyond Mosaic itself, Attorney Dionne Savage had years of experience piecing together the most complex forms of community development tax credit financing. PIDC brought its whole economic and community development experience to bear, as well as specific staff members who could be targeted to particular elements of the project, like the New Markets Tax Credits. Fulton Bank and US Bank both had staff and teams that were devoted to community development banking in particular. At every end of the deal, was a person or an organization with years of experience in making similar deals happen.

Fourth, Golaski Labs followed or joined public and private investment in Wayne Junction. After a major investment from SEPTA that helped Wayne Junction retain its status as a critical transportation node for both city and suburban commuters, developers like Ken Weinstein and Mosaic ultimately followed. While adding some additional construction burdens, the summer 2018 historic district designation also made Historic Tax Credits a new tool for developers.

The space will be a multi-use building comprising of offices, apartments, and a restaurant. Image credit: ALMA Architecture, www.mosaicdp.com/golaski-labs
In 2018, the U.S. Impact Investing Alliance, the Beeck Center at Georgetown University, and the Federal Reserve Bank of New York convened several roundtables around how opportunity zone investments could result in meaningful and inclusive economic development. The following guiding principles were developed from that work, with a subsequent description of how Mosaic and their partners attempted to align their efforts accordingly:

**Community Engagement:** Opportunity Fund investors should request that fund managers integrate the needs of local communities into the formation and implementation of the funds, reaching low-income and underinvested communities with attention to diversity.

*Mosaic and PIDC worked with the community to understand needs and identify sources of equity.*

**Equity:** Opportunity Fund investments should seek to generate equitable community benefits, leverage other incentives and aim for responsible exits.

*The whole project is based around community benefit first, both for potential residents, tenant businesses, and services; New Markets Tax Credits and local property tax abatements were used.*

**Transparency:** Opportunity Fund investors should be transparent and hold themselves accountable, with processes and practices that remain fair and clear.

*Nearly all the features of the deal were featured publicly on the Small Change platform and remain there, even after the investment window closed.*

**Measurement:** Opportunity Fund investors should voluntarily monitor, measure and track progress against specific impact objectives, identifying key outcome measures and allowing for continuous improvement.

*Tracking and monitoring will occur in compliance with the New Markets Tax Credit program.*

**Outcomes:** Opportunity Fund metrics should track real change, with an understanding that both quantitative and qualitative measures are valuable indicators of progress.

*Tracking and monitoring will occur in compliance with the New Markets Tax Credit program.*