



Imperial Fresh Markets

Expansion shows commitment to the community

In this series of case studies Capital Impact Partners profiles three transactions to highlight the Federal Government's Healthy Food Financing Initiative (HFFI), which was created to fund efforts that confront food deserts in underserved communities. **This story illustrates how Capital Impact leveraged the HFFI to help a family-run grocery store in Detroit expand its footprint and offer more fresh, healthy, and locally sourced food.**

The Healthy Food Financing Initiative: Bringing Healthy Foods within Reach



The Healthy Food Financing Initiative

Launched in 2010, the Healthy Food Financing Initiative (HFFI) is the federal government's first coordinated effort to confront the challenge of food deserts. The Community Development Financial Institutions Fund (CDFI Fund), an agency of the U.S. Department of the Treasury, plays a central role in managing this important effort. The initiative provides funding to enable community-based nonprofits, such as Capital Impact Partners, to finance healthy food projects in underserved communities that lack access to credit, capital, and other financial services from traditional banks and lenders. These projects not only expand access to healthy foods but also strengthen the local economy by starting new businesses, creating and retaining jobs and generating state and municipal tax revenues. Learn more [here](#).



The Food Trust, its work in HFFI, and the Center for Healthy Food Access

The Food Trust, a nonprofit founded in 1992, strives to ensure that everyone has access to healthy, affordable food and information to make healthy decisions. With support from the Robert Wood Johnson Foundation, The Food Trust has launched The Center for Healthy Food Access, a national collaborative effort working to ensure that every child in the United States has access to nutritious, affordable food. The Center serves as a catalyst to test groundbreaking ideas and share lessons learned. Also, The Center for Healthy Food Access funded this case study. Learn more at: www.thefoodtrust.org and www.thefoodtrust.org/centerforhealthyfoodaccess



Capital Impact Partners and its work to leverage the HFFI

Capital Impact Partners has emerged as one of the leading Community Development Financial Institutions (CDFIs) in the healthy foods movement. The organization has received a financial assistance award in each of the first four rounds of the HFFI and has leveraged its \$9 million in HFFI awards with philanthropic and private-sector funding to provide \$112 million in financing for 76 grocery stores—thereby expanding access to fresh foods for more than one million Americans. Capital Impact Partners also has funded a variety of other innovative projects such as mobile markets and distribution centers. The organization is committed to supporting enterprises throughout the entire food system—from food producers to aggregators, distributors and retail facilities—in order to meet the healthy food needs of underserved communities. This holistic approach also includes offering an intermediary lending program through which Capital Impact Partners makes loans to selected intermediary microlenders that finance small food enterprises. Learn more at: www.capitalimpact.org

The Story Behind Imperial Fresh Markets

Sam Shina was six years old when his family immigrated to the United States from Iraq in 1980. Sam, his older four brothers and his six sisters grew up working at various Detroit liquor stores owned by their uncles. One uncle owned a medium-sized, 12,000-sq. ft. supermarket on Joy and Wyoming Road, and the older brothers also worked at this store. When each of the boys graduated from high school, none of them went to college, and they asked to continue working in the family business in retail. In 1994, when the opportunity arose, Sam Shina and his family purchased Banner Super Store on Schaefer Highway on the west side of Detroit.

At that time, competition in food retail was low in Detroit as the population continued to decrease due to residents migrating out of the city. The Shina family was able to acquire several supermarkets over the course of ten years. The family has gone on to operate 14 grocery stores throughout the metro area. These stores provided employment opportunity for their family members who continued to immigrate to the Detroit area.

The Shina brothers say that their depth and breadth of experience in running an efficient supermarket comes from “grinding it out every day, working hard and understanding the fundamentals.” The Shina brothers, now in their 40s and 50s, can still be found working the floor of their supermarkets, interacting with customers, solving issues with their staff and being ever-present in every day-to-day activity. With a suite of family-owned supermarkets, the Shina brothers feel like they’ve achieved the American Dream.

The store on Schaefer Highway serves a primarily low-income population, where currently **almost 58 percent of its customers use the Supplemental Nutrition Assistance Program** (formerly known as the Food Stamp program) and approximately 90 percent are African American. The brothers believed that the store could better serve the community if they were able to invest in the facility and expand. Having already been at the location for more than 30 years, they knew their loyal clientele deserved a refreshed façade, a brighter interior and more space for produce and hot deli foods.



Project Background and Financing Need

In 2012 as Michigan was pulling out of the Great Recession, investors and developers were beginning to take note of opportunities in Detroit. Sam did not want to lose any opportunity to reinvest in the community that his family had been committed to over the past three decades. So, Sam reached out to Detroit Economic Growth Corporation (DEGC) to see whether he could access additional incentives or support to help his business grow. Mimi Pledl of DEGC recognized how unique the Shina family is in Detroit with their commitment to the community over many years. DEGC provided connections to nontraditional lenders who were helping to finance supermarkets in neighborhoods in need. One of these lenders was Capital Impact Partners.

In addition to this introduction, DEGC was able to provide resources to complete some architectural work for the expansion and grant support for rebranding the store from Banner Super Store to Imperial Fresh Markets.

Sam and his brothers will agree: this is not an easy business. Grocers constantly need to refresh and upgrade store layouts and products to keep customers satisfied. The Shina brothers also wanted to do well and serve the community what it needed. When they started to plan the expansion, the property appraised for \$2 million,

yet their anticipated project was to be \$6 million to expand the store by nearly 50 percent from 23,000 sq. ft. to 39,000 sq. ft. The Shina brothers were confident that they would meet their projections after they completed their expansion. They wanted to prove to realtors and investors that the family could overcome these barriers and that their project would be a great success.

Detroit Economic Growth Corporation and the Green Grocer Program

The Green Grocer Project (GGP) was a program aimed to increase fresh, healthy, local affordable food for Detroit's residents while also stimulating investment in the city's neighborhoods. Detroit is home to more than 70 full-service, independently owned supermarkets, and the GGP has worked with at least 50 of them, providing and coordinating technical and financing assistance for grocery store improvements and expansions. Learn more [here](#).



The Transaction

The Shina Family decided to expand their original store to serve the neighborhood better. With \$287,000 as their owner contribution, they worked with Capital Impact Partners to facilitate a \$5.8 million New Markets Tax Credit (NMTC) transaction to expand the store from 23,000 to nearly 39,000 sq. ft, which would bring the store size in line with the Shinas' other independent supermarkets. Although there were several small, independent grocery stores near Imperial Fresh Market's location, there were no other full-service grocery stores in the area at the time, so the new store would be a much-needed source of fresh foods. A market study completed at the time of underwriting showed high grocery sales leakage, about 39 percent of total grocery purchases, to outlying areas, so this expansion would "recapture" some of these grocery sales and better serve the immediate residents.

Several factors offered this request strong potential:

- ▶ **An Area of Need:** The store is located within a qualified census tract for the NMTC Program, where the poverty rate is 27.3 percent, the unemployment rate is 28.6 percent, and families earn 52.7 percent of benchmarked median family income. When compared to the rest of the county where it is located, the surrounding area is further characterized by lower home values and lower educational attainment. Within the one-mile radius of the store, more than 95 percent of the residents identify as black.
- ▶ **Strong Growth and Margins:** Imperial's financials show solid growth in sales, ranging from 3 to 6 percent over the three-year period reviewed, compared to the industry average of 1 to 2 percent annual sales growth. And, although Imperial's gross margins - or the markup that a grocer is able to charge - ranging from 17 to 24, percent are lower than the industry average of 26 percent, the company actually has lower operating costs than the industry average, so its net profit of 5 percent is stronger than the industry average of 1.6 percent.
- ▶ **Strong Balance Sheet:** Imperial's balance sheet is strong, also, with a lower level of debt than the industry: its debt-to-equity ratio is 0.44 to 1, whereas the industry average is 2.44 to 1. This ratio indicates the degree of dependence on creditors, rather than the owners, in providing funds to operate the business. Even among the top profit leaders of the industry, this ratio is 0.8 to 1 - still not as low or strong as Imperial's ratio. The company's current ratio is similarly strong: 2.37x at its weakest level in three years compared to industry average at the time of 1.34x. The current ratio indicates the ability of a company to meet its short-term obligations with current assets and is an important measure of liquidity.

Sources			Uses		
Capital Impact Partners and W.K. Kellogg Foundation Senior Leverage Loan	\$3,381,023	58%	Acquisition	\$1,070,000	18%
Invest Detroit Subordinate Leverage Loan	\$500,000	9%	Soft Costs + Contingency	\$479,017	8%
JP Morgan Chase Equity Investment	\$1,686,578	29%	Construction + Contingency	\$2,222,000	38%
Borrower Equity	\$287,001	5%	Furniture, Fixtures, Equipment	\$1,573,478	27%
			Debt Service Reserve + Costs	\$260,107	4%
			Transaction Fees + Legal	\$250,000	4%
Total	\$5,854,602	100%	Total	\$5,854,602	100%

In addition to facilitating the NMTC transaction, Capital Impact provided a direct loan and coordinated financing from other lender partners including JPMorgan Chase, Invest Detroit and the W. K. Kellogg Foundation.

There are many risks associated with a transaction of this size and complexity:

- ▶ **Operating Risk:** The store may not be able to make payments if sales do not increase with the growth of the store. This risk is mitigated by the 20-year history of the store, its owners' deep understanding of the market, and historical financial performance showing that management is very adept at controlling costs. In addition, all five Shina brothers would provide personal guarantees and have substantial financial resources to make payments should the store not produce ample cash flow for some periods of time. Finally, there will be a 6-month debt service reserve that will be capitalized as part of the transaction
- ▶ **Food Inflation:** Food inflation has compressed the store's gross margins in the past and the store has had trouble passing higher costs to its customers. This risk is mitigated by Imperial's demonstrated ability to manage operating expenses tightly. When food inflation compressed gross margins previously, the owners cut personnel and one brother stopped taking a salary from the store; as a result, margins tightened but the store continued to generate a profit. The Shina brothers take an active role in the management and operations of the store and would likely contribute more of their time should gross margins decrease. Lastly, food inflation affects all grocers and the increased costs would likely be passed along to consumers at some point.
- ▶ **Construction Risk:** Construction delays, cost overruns, and environmental remediation are all possible. These risks were mitigated by Capital Impact's internal construction and closing team to monitor the process ongoing. The selected general contractor has experience with similar grocery store projects in the Detroit area. The construction contract includes a guaranteed maximum price and, in lieu of a payment and performance bond, the store has access to a \$500,000 letter of credit from a bank totaling 24 percent of the construction costs. While the possibility of environmental remediation remains, potential remediation costs are not expected to exceed \$70,000 and are accounted for in the contingency budget.



Federal Food Systems Programs at Work

There are several federal programs that support food systems that benefited the Imperial Fresh Markets project:

- ▶ Healthy Food Financing Initiative (HFFI), administered by the Community Development Financial Institution Fund, a department of the U.S Department of Treasury, provided grant proceeds to Capital Impact Partners to support work to draw healthy food retailers to underserved communities
- ▶ New Markets Tax Credit (NMTC) program, administered by the Community Development Financial Institution Fund, a department of the U.S Department of Treasury, is designed to attract new investment to low-income communities by allowing individual and corporate investors to receive a tax credit against their federal income tax in exchange for making equity investments
- ▶ Supplemental Nutrition Assistance Program (SNAP) is the nation's most important anti-hunger program. In a typical month in 2017, more than 40 million low-income Americans were able to afford a nutritionally adequate diet through SNAP
- ▶ Food Insecurity Nutritional Incentive (FINI) grants program, administered by the United States Department of Agriculture (USDA) National Institute of Food & Agriculture, provides an additional incentive for SNAP beneficiaries who use benefits for fruits and vegetables. Produce incentives are integrated at Imperial Fresh Markets under the banner of Double Up Food Bucks, Michigan's statewide incentive program, which is supported with FINI funding

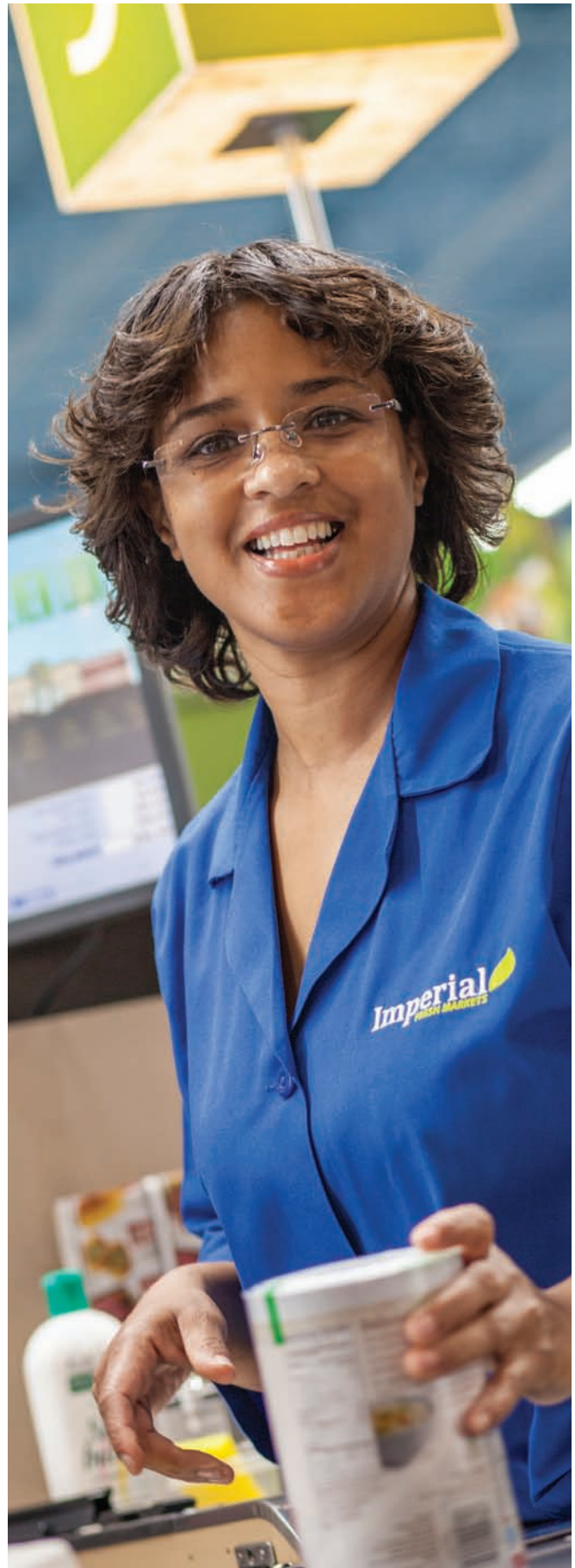


Conclusion and Transaction Outcomes

When it reopened in December 2015, the store was renamed and rebranded as Imperial Fresh Markets. Although there are several small, independent grocery stores nearby, there are still no other full-service grocery stores in the area, so the new store is a much-needed source of fresh foods. **Sales levels in 2016 were thirty percent higher than sales levels in 2015.** And, while sales through the Supplemental Nutrition Assistance Program (SNAP) customers are down due to improving economic conditions from 75 percent in 2015, this category of sales is still considerable at 58 percent in 2016.

The expansion at Imperial Fresh Markets has allowed most departments to double in size to better serve their customers. The new store caters to its customers and features a variety of locally sourced products, expanded fresh meat and produce sections, an improved onsite baker, a full-service deli and a more extensive selection of prepared foods as well as an in-store pharmacy. **Of the total sales at Imperial, approximately nine percent is represented by produce sales, compared to approximately six percent in the old Banner store prior to the expansion.** To service a lunchtime crowd drawn to made-to-order chicken shwarma, Imperial also installed a small dine-in seating area.

The fiscal year following the expansion, total sales grew by 36 percent a result of more customer traffic attributable to a new building, better pricing to consumers, marketing to wider audience. Produce, meat, and groceries combined showed an average of a 33 increase after the expansion. Produce sales accounted for 6 percent of Imperial's total sales in 2016, although the 2016 Independent Grocer's Financial Survey's average percentage of produce sales to total sales in the "Midwest" region of the United States was 10 percent. Meat sales represented 28 percent of Imperial's total sales at in 2016, which was consistent with the 2016 Independent Grocer's Financial Survey's average percentage of meat sales to total sales in the "Midwest" region of the United States. As Imperial continues to grow sales particularly grocery, beer and wine, and produce, sales will move closer to the average percentages cited here.



Gross profit margin for the store was 20 percent in 2016. The 2016 Independent Grocer's Financial Survey's average gross margin for stores in the "Midwest" region of the United States was 28 percent. The fact that Imperial compared lower than industry standards is consistent with its historical performance in comparison to the industry standard. Imperial's predominantly low-income customers limit the store's capacity to increase prices. As sales trend upward, Imperial will be able to take advantage of better pricing from suppliers, offer lower pricing to consumers, which will lead to increased shopper transactions and a higher gross profit margin.

With the expansion, Imperial has increased its employee base from 25 to 70, and more than half of the employees are local to Detroit.

Imperial is now able to offer insurance, overtime pay and one week of vacation for some employees. Sam says that Imperial gets 10 inquiries a day from local residents requesting to work there. Imperial offers internal job training and a family atmosphere that keeps staff turnover extremely low. One staff person says that she had been on and off with the company for years, and she keeps coming back because "we have great bosses. When my mom was ill they were here for me 100% of the time."

Capital Impact working with the Shina brothers has allowed a successful independent grocer to expand and modernize its operation, providing better service and healthy food options for the customers it serves.



Imperial Catalyzes Further Company Growth: Park Street Market in Kalamazoo, MI

Fueled by the pivotal experience in Detroit at Imperial, Sam Shina partnered with his brother-in-law, Kiar Gamsho, and his family members Tom and Sam Gamsho, to close on an \$8 million NMTC allocation to redevelop a blighted retail development in Kalamazoo, MI to be anchored by a grocery store. Due to open in late 2018, **the project is transforming a vacated grocery store into a 56,000-sq. ft. Park Street Market plus small retail shops providing fresh affordable food and retail to the low-income community at a highly trafficked intersection.** The store will be a second location for the Gamsho family, which opened the first Park Street location in 2015 through a similar resurrection of a formerly vacated grocery store. Park Street Market is known for its commitment to providing employment opportunities to those that need it most. The new location will build upon workforce development relationships with Kalamazoo Gospel Mission, Ministry with Community, Michigan Works, the Arc Community Advocates and the Kalamazoo Probation Enhancement Program, creating an estimated 165 permanent full-time positions.

The new Park Street Market project will create 60 new full-time-equivalent jobs plus an additional 46 construction-related jobs, which are much needed in this community where the unemployment rate is 2.5 times higher than the national rate. This project is supported by Capital Impact Partners through the Michigan Good Food Fund, a \$30 million public-private partnership loan fund that provides financing to good food enterprises that benefit underserved communities across Michigan.



BUILDING COMMUNITIES OF OPPORTUNITY THAT BREAK BARRIERS TO SUCCESS



Healthy Food Financing Supports Our Larger Vision

Capital Impact Partners champions social and economic justice for underserved communities, transforming them into communities of opportunity that foster good health, economic opportunity, and interconnectedness. Through mission-driven lending, incubating social impact programs, impact investing, and policy reform, we partner with local communities to help create equitable access to health care and education, healthy foods, affordable housing, and dignified aging for those most in need.



2.5 MILLION

PATIENTS
receiving health care at
533 community health centers



253,000

STUDENTS
in 248 high-quality
charter schools



1.1 MILLION

PEOPLE
with access to healthy
food from 88 local retailers



37,000

ELDERS
aging in their community
through 190 communities



38,000

AFFORDABLE HOUSING
units in 246
communities



870,000

COOPERATIVE CUSTOMERS
served by 291
Co-op businesses

WE HAVE DEPLOYED OVER **\$2.5 BILLION** TO SERVE NEARLY
5 MILLION PEOPLE AND CREATE MORE THAN **32,500 JOBS**
NATIONWIDE IN SECTORS CRITICAL TO VIBRANT COMMUNITIES.



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