

# How A DEI Focus Made The Philly Navy Yard's First Residential Groundbreaking A Reality

October 24, 2023 | Matthew Rothstein, Bisnow Philadelphia

There's a simple reason groundbreakings are celebrated so vigorously in commercial real estate: They mark the moment a development turns from an idea into something tangible, something real.



*Courtesy of Ensemble/Mosaic*

Leaders from Ensemble Real Estate Investments, Mosaic Development Partners, PIDC, MetLife Investment Management, Basis Investment Group and Korman Communities break ground on AVE Navy Yard, the Philly campus's first residential project.

That's why Ensemble Real Estate Investments Managing Director Brian Cohen got chills on the eve of Tuesday's groundbreaking for the first nonmilitary apartment building in the Philadelphia Navy Yard's history.

Ensemble/Mosaic, the joint venture Ensemble formed with Mosaic Development Partners to be the Navy Yard's master developer, launched the 614-unit, two-building AVE Navy Yard with Korman Communities, the Navy Yard's residential development partner.

It wasn't the building itself that Cohen found so striking, but the financing deals that made the Tuesday ceremony possible, he told Bisnow in an interview at Ensemble/Mosaic's Navy Yard office on Monday, joined by Mosaic co-founder and CEO Greg Reaves.

Ensemble/Mosaic rooted its master plan in a \$1B diversity pledge, which included a promise to use minority-owned or women-owned enterprises for 20% of its equity investment. With a \$100M investment from Basis Investment Group, 100% of AVE Navy Yard's limited-partner equity meets that standard.

Basis co-founder and CEO Tammy Jones said she got chills of her own on Monday during a phone interview with Bisnow. Basis invests money on behalf of institutional investors, primarily public pension plans, Jones said.

"This is how more deals can come together in the future in ways that are inclusive: Black-led developers, diversity in LPs, diversity at every level," Jones said. "We want to make sure that Basis is facilitating people of color and women owning our skylines in the cities we populate. It's important that we're bringing to bear this capital that was contributed by many people who look like us."

## A Partnership, Formed And Bonded By Values

When the Philadelphia Industrial Development Corp. issued a request for proposals to replace Liberty Property Trust as the Navy Yard's new master developer in 2020, it did so as the industry's lack of minority representation was receiving unprecedented attention. Ensemble/Mosaic's pledge to infuse equity and diverse representation into every level of its master plan didn't just win PIDC over — it became the standard by which PIDC judged subsequent RFPs.



*Courtesy of XR Projects*

An aerial rendering of AVE Navy Yard, with its two buildings sitting between a historic Navy barracks on the left and the lab building 1201 Normandy Place to the right.

Three years later, little of the rhetoric from that time has translated to measurable results in the private sector. But even in a capital markets environment that has become inhospitable to new construction in general, shovels touched dirt on Tuesday, not despite that DEI focus but because of it, Cohen and Reeves said.

“We’re building,” Reeves said. “We don’t want to lose sight of that. We’re honoring our commitments and doing it in a way that is extending the conversation around inclusion at a scale that no one else has been able to do.”

When Ensemble/Mosaic released its 8.9M SF master plan last June for a true mixed-use neighborhood in what had only ever been a military outpost or corporate campus, it expected to begin construction on its first residential component by the end of that year. But deed restrictions placed on the land by the Navy preventing private residences weren’t lifted until six months ago, Cohen told Bisnow.

By October 2022, the capital markets had begun to take a turn for the worse. Cohen, who led the financing efforts for Ensemble/Mosaic and Korman’s proposed development, began to seek two construction loans for AVE Navy Yard, one for each building. By the end of the year, M&T Bank signed on for the 267-unit market-rate AVE Normandy, while Ullico, an investment management firm specifically for labor unions, jumped on board for the 347-unit mixed-income AVE Constitution.

“At that point, the regional banks were really who was lending,” Cohen said.

Both lenders remained committed to the project even as regional banks beat a hasty retreat from commercial



real estate in the wake of Silicon Valley Bank and Signature Bank's failures in the spring. It only accelerated a collapse in construction starts that spiking interest rates and a historic infusion of new supply had set off.

M&T Bank held steady because of the strength of its relationship with Ensemble/Mosaic and Korman, while Ullico stuck with it because AVE Constitution will be a mixed-income property built with union labor, Reaves said.

"It's a level of relief" that the loans are finally closed, Reaves said.

"But we didn't really see wavering from their side," he added. "Everybody understood the environment that we're in, but I think they also recognized the significance of this project. And they wanted to be a part of it."



*Bisnow/Matthew Rothstein*

A 3D model of Ensemble/Mosaic's plans for the Philadelphia Navy Yard, seen at the JV's Navy Yard office. The two buildings of AVE Navy Yard are visible in white in the center, behind the dark-red military barracks.

Only after the deed restriction was lifted did Ensemble/Mosaic begin searching for its equity partner. Basis heard about the ambitious plans for the Philly Navy Yard through its relationship with the Boston Real Estate Inclusion Fund, and Basis had previously worked with Korman, Basis co-founder and Head of Investments Dale Burnett said.

Once the connection was made, it didn't take long for Basis, Korman and Ensemble/Mosaic to realize it made sense to work together. But since April, the investment market has only soured further, making it a seven-month "slog" for Basis to pull together the capital from its list of commingled investment funds and separately managed accounts, Jones said.

"Because the capitalization of this project overlapped with the deterioration of the capital markets, [investors] need a persistent partner with strong relationships that has a steady hand to show the value of the deal and why it's a generational opportunity," Burnett said.

## The Project, Planned And Built On Diversity

The significance of that opportunity goes beyond the inclusion of affordable units at AVE Constitution. Ensemble/Mosaic has committed to rent at least 90 units in the building to qualified tenants at income-restricted rates. All of the building's units are being built to the same standard, which isn't a guarantee in mixed-income communities.

"Six hundred fourteen units is a very large project for Philadelphia, and that was intentional," Cohen said. "We wanted to bring a density down here. We wanted to have something for everyone. So we have affordable, we have market-rate, we have luxury, we have furnished. And now we set the stage for what the rest of the Navy Yard will be for residential."

Even though only some units in the luxe AVE Normandy will be of the furnished, flexible-stay variety for which Korman's AVE brand is known, both buildings will be managed to the amenity and staffing standard normally reserved for hybrid hotel/residential properties, Reaves said.



*Courtesy of Mosaic Development Partners*

Mosaic Development Partners co-founders Greg Reaves and Leslie Smallwood-Lewis

"The key is making sure that every resident feels valued and treasured," Korman co-CEO Brad Korman told Bisnow. "While it might be a component of economics, it's never something that anyone should be made to feel different for."

Perhaps the most familiar feature of Ensemble/Mosaic's diversity pledge is the commitment to contract with minority business enterprises and women's business enterprises for at least half of all the work at its Navy Yard projects — another selling point for Ullico and, beginning over the summer, Basis. That has already been set in motion at the two buildings the JV already started, a completed parking garage and the nearly done lab building at 1201 Normandy Place, which signed its first tenant in the spring.

But that pledge also includes a raft of nonprofit work funded by the partnership's returns on investment as a developer and long-term owner, as well as training programs to grow the diverse workforce it will need to keep meeting its MBE and WBE commitments on building after building. And starting with AVE Navy Yard, it will include the headiest task yet: creating a truly diverse community that has economic and fulfillment opportunities for every background and income level.



“Neighborhoods have been established for generations as for this group or that group,” Korman said. “This gives us a chance to be a brand-new neighborhood for everyone, from the junior employee just starting out all the way up to the CEO.”

In order to make a mixed-income community viable in a place with no residents at all, far more than just a living space is needed. For residents without cars, Ensemble/Mosaic already operates a free shuttle to Center City and one to NRG Station, the southernmost stop on the subway’s Broad Street Line at the South Philly Sports Complex, Reaves said.

The JV is also in discussions with SEPTA to increase transit service to the Navy Yard. Extending a bus line to make something of a loop around the Navy Yard campus could make the most sense.

Though only a few scattered dining options are on campus for workers right now, Ensemble/Mosaic has just begun marketing 12K SF of retail space it built on the parking garage’s ground floor, Cohen said.

The JV envisions filling the garage retail with a small-format grocery store, a pharmacy and a daycare center, Reaves said. A café is envisioned for the 3K SF of retail planned on the ground floor of 1201 Normandy.



*Courtesy of DIGSAU*

*A rendering of AVE Normandy, the more upscale of the two AVE Navy Yard apartment buildings being developed by Korman Communities and Ensemble/Mosaic.*

AVE Navy Yard will have 25K SF of ground-floor retail spread across its two buildings, with room for two full-service restaurants looking out on a public plaza surrounding the Navy Yard’s historic chapel. The Constitution Avenue side of AVE Constitution is suited for service retailers like a dry cleaner, pet store and a barbershop, Reaves said.

Ensemble/Mosaic is planning an upscale restaurant for the ground floor of the next project it expects to start after AVE Navy Yard: a four-star hotel in a historic former barracks, which overlook the same Central Green public space that abuts both the apartment buildings and 1201 Normandy and have been an Ensemble target since before it partnered with Mosaic.

The barracks in question have been out of use for decades, requiring environmental remediation and site stabilization before it is ready for proper development. Ensemble/Mosaic is in the “early due diligence” phase of that site work, Reaves said.

The 109 acres controlled by Ensemble/Mosaic contain a lot more space for further life sciences development, which the JV is in no rush to begin until 1201 Normandy leases up fully, Cohen and Reaves said — unless they get a build-to-suit request. Last year's master plan also calls for more than 3,000 additional residential units, for which Korman Communities will also be a partner, Korman said.

The scope of Ensemble/Mosaic's master plan and the scale of its diversity pledge are what give weight to the team's claims of generational and unprecedented opportunities, but such claims have been made before in Philly. The dire state of the capital markets has pumped the brakes on the life sciences boom that many, including Ensemble/Mosaic, still believe is inevitable. But in this case, those lofty DEI promises are exactly why this project is moving forward.

"This is aligned values, as well as an aligned investment strategy," Reaves said. "And so, being able to do this in a way that really pushes our inclusion focus is something that's really heartening in an environment where other people can't get regular deals done."

"It should make a statement that we were able to get this done."