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Retail Trade as a Route to Neighborhood Revitalization

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At the end of World War II, most American neighborhoods were serviced by neighborhood commercial districts populated with stores selling food, clothing, household goods, jewelry, and other items. The strongest of these districts successfully competed with downtowns as locations for major department stores. But rapid suburbanization and the development of automobile-oriented shopping centers led to the decline of most of these historic commercial districts.[1] In low-income and minority neighborhoods, the decline of neighborhood retail coincided with dramatic shifts in residential housing patterns as middle-income minorities and white families of all income levels moved out of urban neighborhoods, leaving behind increasingly concentrated poverty and racially segregated neighborhoods. By the 1980s, growing income inequality was contributing to a "spiral of decay" in which declining incomes and population losses led to declining retail and other neighborhood conditions, which, in turn, caused further outmigration.[2] This was especially true in communities of color. While the 1990s saw the return of some more affluent and white residents to the inner city, neighborhood commercial strips have been slower to revitalize.[3] By 2000, half as many central city neighborhoods had a middle-income profile as in 1970, suggesting that these areas epitomize national patterns of growing income inequality.[4] Disinvestment has remained so pervasive

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1. Fogelson (2001).
2. Wilson (1987).
3. Wilson (1987).
4. Booza, et al. (2006).

that policymakers (urged on by Michael Porter) paradoxically consider these older neighborhoods to be "new" or "emerging" markets.

Neighborhood commercial disinvestment stems not only from population shifts but also from shifting consumption patterns. Most obvious, the rise of big box retail, now commonly called the Wal-Martization of retail, has vastly increased the type and quantity of goods available to consumers, for the most part at lower prices. "Big box" means larger market areas and stores, but rarely in the traditional commercial corridor locations. The need for larger sites and freeway access means that this type of retail generally must locate in industrial or commercial areas distant from residential neighborhoods, most often requiring the use of an automobile. Moreover, as consumers increasingly purchase goods in bulk from discounters, the car has become essential to the shopping trip. Though the debate is ongoing about whether big box outlets cannibalize or complement small local stores, this overall shift in retailing has undoubtedly discouraged retailers from locating in neighborhood retail strips.[5]

Across the country, local governments and community-based organizations are operating a wide variety of programs that seek to reverse this decline. These programs intervene in neighborhood retail markets by attracting new retail businesses or supporting existing businesses, building new commercial real estate, or improving quality-of-life conditions that stand in the way of retail development. Although these programs are part of a broader attempt to revitalize disinvested urban neighborhoods, their proponents have generally not articulated the specific mechanisms through which they are expected to contribute to revitalization. This chapter will fill that gap by describing how retail reinvestment might, at least in theory, lead to neighborhood revitalization.

Are retail strategies successful? As this chapter will show, few formal evaluations have been completed, and even those tend to measure discrete outcomes such as job creation rather than the contribution of programs to overall neighborhood well-being. Evaluating retail development programs is difficult, first, because of their small scale, and second, because of the variety of actors involved. Generally, retail development programs are very local efforts—targeting a single neighborhood or, in some cases, areas as small as one or two city blocks. The relative shortage of neighborhood-level capacity (including community-based organizations, or CBOs, and private market actors such as realtors and real estate developers focused on inner-city neighborhoods) makes it difficult to develop and sustain programs. Moreover, many revitalization efforts are relatively small-scale pilots implemented for limited periods of time, with minimal funding. Finally, different stakeholders move in and out of retail revitalization, depending on foundation fashions and political conditions. Alter-

5. Artz and Stone (2006); Basker (2005); Stone (1997); Civic Economics (2002).

natively, the federal government, the mayor's office, the redevelopment agency, intermediaries such as the Local Initiatives Support Corporation (LISC) or Main Street programs, merchants' associations, local chambers of commerce, and local business development centers may get involved in commercial corridors in joint or separate efforts.

The evaluations to date use anecdotal and program outcome data to show that these efforts do result in some increased market activity, increased sales tax revenue, and even an improved sense of community pride. But since very few studies have looked at these outcomes in the context of comparison neighborhoods, it is hard to know if the intervention, rather than other factors, caused the improvement. Only studies of empowerment zones tend to employ quasi-experimental designs with control neighborhoods.[6]

Though it is possible that programs are creating overall economic growth, there are several plausible alternative explanations as well. First, retail development strategies may be causing retail activity to shift between neighborhoods: rather than creating net new activity, resurgence in one place means decline in another. Second, retail consumption may be shifting back to more traditional neighborhood-based patterns. Third, the return of higher-income residents to urban neighborhoods may be stimulating improvements in retail activity. In other words, just as the flight of the urban middle class caused the decline of retail, its return is generating a resurgence.

If some part of this third explanation is accurate—that is, improvements in neighborhood retail conditions are associated with changes in the housing preferences of U.S. households and in the widespread strength of the housing market in the early part of this decade—an interesting chicken-and-egg question arises. In addition to population shifts fueling the retail sector, might improvements in neighborhood retail be stimulating residential revitalization? If so, the case for retail revitalization becomes much more compelling, and one key question becomes what kind of revitalization is occurring: an influx of upper-income households replacing lower-income residents, a diversification of household incomes, or income improvements for existing residents?

This chapter begins by outlining the relationship between retail and neighborhood revitalization, presenting a conceptual model of how changes in one shapes the other. We then examine the issue of the retail gap: although interest in retail revitalization is based upon a presumption that low-income neighborhoods are underserved, the evidence on this point is conflicting, and measurement is generally poor. Next, we examine three broad strategies for retail revitalization: public-led retail development, private-led retail development, and commercial corridor revitalization. As the following section shows, each has had

6. See, for example, Oakley and Tsao (2006).

varying effects on revitalization outcomes, from job creation to improving neighborhood identity. We then provide a case study of revitalization in the San Francisco Bay Area, analyzing the relationship between retail and neighborhood revitalization from 1990 to 2005 in a region with unusual increases in income inequality accompanied by significant revitalization. A conclusion offers thoughts for further research.

How Does Neighborhood Revitalization through Retail Work?

Proponents of retail development programs cite a wide range of sometimes conflicting reasons for pursuing these strategies. These programs can raise local and state tax revenues, often with just minimal expenditures, since they typically use underutilized infrastructure. New retail projects or revitalized corridors act as catalysts for further public and private development. They also provide entrepreneurship opportunities and create jobs for neighborhood residents.

Successful commercial development can make low-income neighborhoods more attractive places to live for working families and individuals, while also stemming the outflow of the low-income population—thus diversifying income levels in communities. But making neighborhoods more desirable might also spur gentrification—the attraction of new middle- and upper-income residents into previously decaying neighborhoods, typically associated with an increase in property values and sometimes the displacement of lower-income households as well. In the following section, we first examine the debate over neighborhood revitalization and gentrification and then turn to the question of how retail revitalization might be connected to neighborhood revitalization.

What Is Neighborhood Revitalization?

At the outset, it is important to distinguish among different forms of revitalization. By definition, revitalization can only take place in areas that are initially declining or low income. In these neighborhoods, the process of revitalization might lead to three different types of outcomes for residents. Some low-income areas might remain essentially low income but with improved access to services and opportunities. One example of this is the Dudley Street Neighborhood Initiative in Boston, which seems to have stabilized and revitalized the neighborhood without a substantial influx of more affluent residents.[7] Another form of revitalization occurs as a low-income neighborhood becomes mixed income, either through an influx of more affluent residents or through improvements in the incomes of existing residents (or both). Of particular interest are neighborhoods that gain middle-income, rather than upper-income, residents; although

7. Medoff and Sklar (1994).

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the majority of U.S. neighborhoods are diverse, most are losing their middle-income households (which is due, in part, to increasing income inequality nationwide).[8] Research has documented how revitalization strategies from small-scale community interventions to physical redevelopment can benefit existing residents and stabilize diverse communities; however, it should be noted that these studies focus more on racial rather than on income diversity.[9]

If the community does not remain mixed income, but continues to attract more affluent residents who gradually replace the existing low-income residents, then a third form of revitalization, *gentrification*, has occurred, often without benefit to existing residents. Though definitions of gentrification vary, these neighborhoods generally experience disinvestment followed by an influx of reinvestment and households of higher socioeconomic status and educational attainment.[10] Such neighborhood change transforms the "essential character and flavor of the neighborhood."[11]

Gentrification has been widely documented, with most commonly cited examples in New York, Chicago, Boston, and San Francisco.[12] However, a debate still flourishes about the extent to which this process is accompanied by displacement. Particularly in the hottest real estate markets, with rising rents and property taxes, redevelopment of existing housing, condo conversions, or even outright evictions can result in displacement of existing residents. Yet, there is some evidence that household mobility rates are relatively lower in gentrifying neighborhoods (perhaps as more households choose to stay), and even those who dispute that finding admit that only a small share of renters move because of displacement.[13]

If middle-income residents depart as well, then the neighborhood may well become *bipolar*, with growth in the share of both very low- and very high-income households.[14] Public policies promoting revitalization may help set in motion these processes of gentrification and bipolarity. Yet, ironically, the stated intent of many of these policies is to facilitate the creation of *mixed-income* communities.

William Julius Wilson suggested that the income mix in a community was key to the life outcomes of poor residents.[15] The concentration of poverty left poor communities without the stabilizing influence of middle-income house-

8. Galster and others (2005).
9. Goodman and Monti (1999); Nyden and others (1997).
10. Freeman (2005); Wyly and Hammel (2004).
11. Kennedy and Leonard (2001).
12. See Wyly and Hammel (1999).
13. Freeman and Braconi (2004); McKinnish, Walsh, and White (2008); Newman and Wyly (2006). Newman and Wyly find that from 1989 to 2002, 6.6 percent to 9.9 percent of all local moves among renter households were due to displacement.
14. Galster and Booza (2007).
15. Wilson (1987).

holds. A growing consensus of policymakers and academics suggests that policies that promote the formation of more mixed-income communities will benefit poor families. There are essentially three ways in which the low-income benefit from the presence of more affluent neighbors, the first two generally are accepted and the third is still hotly debated. First, residents may gain from the better resources and services available in neighborhoods with more middle- and upper-income residents; second, such neighborhoods have better mechanisms for informal social control; and third, social interaction with more affluent neighbors may (but probably will not) improve access to opportunity.[16] While debate continues about the most effective policies, federal, state, and local programs have begun to focus on deconcentrating poverty by, for example, offering housing vouchers in place of public housing complexes, incorporating into market-rate developments low-income housing in scattered sites and redeveloping public housing projects to include moderate-income units.

Although the term gentrification has been used positively to refer to any community where overall income composition changes to include more higher-income households, increasingly the term is used as a pejorative to refer to only the negative consequences of such change.[17] This leaves advocates for mixed-income communities in a difficult bind. If any influx of higher-income households is considered gentrification and therefore harmful to the existing community, any improvements to the neighborhood (including reductions in crime or blight or new retail development) will inevitably make the neighborhood more attractive to higher-income residents and result in the displacement of existing residents. Community leaders are left to debate whether it is possible to achieve any measure of development without displacement.

Whereas concerns about gentrification are focused more often on residential change than on the influx of new businesses displacing existing stores, this kind of commercial gentrification seems to happen as well and has consequences for the broader character of a neighborhood. Businesses serving higher-income cus-

16. None of the HUD mixed-income policies (Gautreaux and the other consent decrees to desegregate housing, Moving to Opportunity or MTO, and HOPE VI) have had a demonstrable positive effect on economic opportunity, as measured by employment, earnings, or income of individuals. In the Gautreaux program in Chicago, the outcome for families who moved to the suburbs was that there was no change in employment or wages (Rosenbaum and Popkin 1991). This failure is repeated for individuals in the MTO program, every HOPE VI study thus far completed, and even in HUD's Welfare-to-Work Voucher Program. Clampet-Lundquist (2004); Goering and Feins (2003); Goetz (2002); Levy and Woolley, 2007; Rubinowitz and Rosenbaum (2000); Turney and others (2006); Curley (2006). See also Emily Holt, "The Impact of Urban Neighborhood Revitalization on the Self-Sufficiency of Public Housing Residents" (http://hdl.handle.net/1961/4255 [2007]); Joseph (2006).

17. Freeman (2006).

tomers (either new residents or outsiders attracted into the neighborhood by businesses like art galleries or restaurants) may be able to pay higher rents than established neighborhood businesses can, which may then be pushed out to make way for the new businesses. This commercial transformation can itself play a role in the process of residential change. Lance Freeman interviewed lower-income residents in gentrifying neighborhoods in New York City who pointed to changed or increased retail activity as a key sign of neighborhood change.[18] Some residents clearly resented the new businesses. One reported "We don't eat there. I went in there for a piece of cake and it was like four bucks! I can get a whole cake for four bucks. Obviously they don't want too many of us in there."[19] Others welcomed the same changes, even the arrival of stores that were clearly catering to the neighborhoods new demographic.

> "I just like the change. . . . You know, you get to see, different people, different stores being opened . . . me and my kids, to up on DeKalb Avenue to the different restaurants. Then we went to the sushi restaurant. My son was like, what is this? I was like, let's just try it, 'cause I've never had it before."[20]

But Freeman found that when asked about neighborhood changes, most residents, rather than commenting on the arrival of expensive stores or restaurants, mentioned instead the return of supermarkets and drug stores. One said:

> "like the new stores and shops. . . . I appreciate that. Like I know there's a Pathmark [grocery store] that's opening up on 145th and 8th Avenue. That's like unheard of. I was really surprised at that, and then up the block it's Duane Reade [drugstore] opening up. 'Cause we used to have to travel so far just to get prescriptions filled."[21]

While Freeman cites these reactions to suggest that gentrification may offer very significant underappreciated benefits to lower-income residents, they also suggest that the impact on lower-income residents may not be the same for all types of commercial improvement. Some businesses are more likely to provide key services for existing residents and improved economic stability, while others may further marginalize the poor and undermine economic stability by fueling speculation and displacement. A new, upscale restaurant sends a different kind of signal than does a new drugstore, and both are quite different from the message that a new art school would send.

18. Freeman (2006).
19. Freeman (2006, p.64).
20. Freeman (2006, p. 63).
21. Freeman (2006, p. 66).

How Does Retail Revitalization Lead to Neighborhood Revitalization?

One of the key debates in community development concerns the relative effectiveness of place-based versus people-based strategies.[22] The basic argument for targeting place is that since most disadvantaged groups are spatially concentrated, programs (such as redevelopment or enterprise zones) to intervene in these neighborhoods will have the most direct impact. But since not all locals will benefit, and some may in fact prefer to leave the neighborhood, others argue that community economic development programs should target the disadvantaged directly. Another critique of place-based economic revitalization argues that revitalization is based on a false assumption that neighborhood-level economic growth could have a significant impact on the well-being of low-income, inner-city residents; because labor markets are regional, this view sees the neighborhood's increased participation in regional economic growth as key to any positive future for these households.[23] Others reject the need to choose between people and place, seeing social norms and networks as the major obstacles to opportunity for low-income households, making a combination of people-based and place-based strategies necessary to repair inner-city norms and networks.[24]

Policymakers typically conceptualize commercial development programs in terms of their impact on place, rather than on its residents. But there is also an argument that these programs can build connections to new social networks and the regional economy. Neighborhood-based development efforts may be necessary to overcome employment and investment obstacles so that neighborhood residents can benefit from regional economic growth.[25] Likewise, commercial district strategies can help address inner-city poverty "by creating a stronger and more positive environment for residents, promoting more social interaction and helping to change resident self-perceptions and norms."[26]

Beyond its impact on existing residents, neighborhood retail development can have an impact on the residential composition of a neighborhood (positively or negatively) The relationship between neighborhood-level commercial markets and residential markets in the same neighborhoods is unclear; in particular, no research has addressed the chicken-and-egg question of whether neighborhood residential revitalization leads to retail revitalization or vice versa. It is clear that demographic changes among neighborhood residents should eventually lead to altered retail conditions, given perfect information in the market. How-

22. For an effective reframing of the debate, see Crane and Manville (2008).
23. See, for example, Teitz (1989).
24. Dickens (1999) provides a useful review of this position.
25. Dickens (1999).
26. Seidman (2002, p. 24).

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ever it is also clear that the presence of retail centers or strips and the absence of blighted commercial properties can influence the location decisions of households. Hedonic housing price models have shown that amenities play an important role in residential location, and the literature on the back-to-the-city movement also suggests that easy access to time-saving household services and retail has led residents to value inner-city locations.[27] In this way, new commercial development can have an impact on the residential market.

In addition to the direct impact that the presence or absence of stores has on potential neighborhood residents, retail has an indirect impact on the overall perception of a neighborhood. Retail strips, commercial corridors, and neighborhood shopping centers serve as a kind of "front door" to any community. On the one hand, if the strip is run down and partially abandoned, it sends a negative signal about the quality of the whole neighborhood. If, on the other hand, the neirhborhood commercial district is improving, people are likely to see this as a strong sign that the whole neighborhood is improving. In this sense, neighborhood retail serves to signal the market about the direction and specific type of change in a community. This signal then affects the location choices of potential neighborhood residents and ultimately the overall composition of the neighborhood.

Figure 2-1 summarizes the various indicators used to measure retail revitalization, the outcomes associated with neighborhood revitalization, and the relationship between the two. With the exception of improvements to individual well-being such as gaining employment and better health, most of these revitalization measures are mutually reinforcing: for instance, declining retail vacancy rates can transform neighborhood identity, but also, transformed neighborhood identity (due to new residents) can result in declining vacancy rates.

The Retail Gap: Myths and Realities

Porter's article "Competitive Advantage of Inner Cities" brought wider attention to the economic potential of inner cities. Among the competitive advantages he identified was the relatively untapped local market demand of inner-city residents. Yet, as this section describes, there is still considerable debate over whether this gap exists and whether it is being measured accurately, as well as whether inner cities present significant barriers to retail development.[28]

27. Artz and Stone (2006); Basker (2005); Stone (1997); Civic Economics (2002); Birch (2005); Smith (1996).

28. Porter (1995).

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Figure 2-1. *Synergistic Relationship between Retail and Neighborhood Revitalization*

Retail revitalization indicators		*Neighborhood revitalization outcomes*
Declining vacancy rates	⟷	Transformed neighborhood identity
Increase in property values		New investment catalyzed
Increase in sales revenues		Higher tax revenues, new businesses
Increase in street activity		Less crime
Increase in social interaction and networks		Mainstream social norms, access to jobs
Altered social norms		Attraction of higher-income residents
Improved access to goods and services	⟶	Improved health
New jobs		Lower unemployment rates

Source: Authors' analysis.

Are Low-Income Urban Neighborhoods Underserved?

Porter noted that in inner-city Boston "spending power per acre is comparable with the rest of the city despite a 21 percent lower average household income," which is due to higher average housing densities in the inner city.[29] And yet, as Porter and others noted, retail sales in inner-city areas fall far below the level of local demand. Porter called for a new era of market-led, inner-city economic development in which self-interested businesses would step in to take advantage of this real market opportunity. Porter's Initiative for a Competitive Inner City estimates that inner cities represent a $122 billion retail market, and it finds that inner-city residents are making one-third of their retail purchases (totalling $40 billion) outside of inner-city areas.[30] A Chicago study confirmed this, finding that its neighborhoods experienced an average leakage of 37 percent of retail spending, with individual low-income areas leaking between 60 and 70 percent.[31]

How has the retail industry missed this dramatic economic opportunity? In a 2004 survey, 88 percent of retail industry professionals indicated that "insufficient concentration of your target population" was a significant barrier to development of new retail in inner-city areas.[32] While low-income households do,

29. Porter (1995).
30. Coyle (2007).
31. Weissbourd and Berry (1999).
32. International Council of Shopping Centers (2004).

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obviously, have less spending power, the retail industry may be overlooking much of the real economic potential of lower-income neighborhoods. Problems with data collection and common methods of analysis may ultimately prove to be a bigger barrier to inner-city development than an actual lack of spending power on the part of low-income residents. The market power of low-income neighborhoods is notoriously hard to evaluate for three reasons: First, the census fails to count many households, especially low-income and immigrant households. As much as 6 percent of the population was not counted in some neighborhoods in Los Angeles.[33] Second, many lower-income households receive significant income that is not reported in government data. While some of this income comes from illegal activity, most is probably from legal but informal activity like childcare. One study showed that families with reported incomes of less than \$10,000 per year reported *spending* over \$25,000 on goods and services.[34] Third, because most market data are based on the decennial census, economic forecasts often fail to reflect more recent changes in a neighborhood's character. A comparison of projections by market research firms for Milwaukee neighborhoods for 1999 (projected forward from the 1990 census) with the actual 2000 census numbers found significant discrepancies, particularly in low-income neighborhoods.[35] Several neighborhoods were shown as having rapidly declining populations, but they turned out to be experiencing steady growth.

Even if the underlying data were fully accurate, many urban neighborhoods might be disadvantaged by the traditional reliance by market researchers on indicators of economic potential that fail to account for the real economic power of urban neighborhoods. Much of the retail industry, accustomed to suburban locations, has focused on neighborhood *median income* rather than aggregate income as a simple metric for comparing potential locations.[36] Retailers hoping to serve middle-income consumers may overlook real concentrations of these households by focusing on the percentage of an area that is middle class rather than on the total number of middle-class households (which may be higher in a dense area with a low middle-class percentage than in a lower density but predominantly middle-class area).[37] Similarly, widely used "lifestyle segmentation" systems such as Tapestry and PRIZM offer a shortcut for retailers hoping to quickly understand the demographics of a given area, but often these systems present lower-income consumers in inaccurate, biased, and dismissive terms.[38]

33. Ong and Houston (2002).
34. Weissbourd and Berry (1999).
35. Pawasarat and Quinn (2001).
36. Porter (1995); Weissbourd and Berry (1999); HUD (1999).
37. International Council of Shopping Centers (2004).
38. These systems, and others like them, group an area's diverse population into relatively homogeneous segments on the basis of demographic traits, such as race, gender, and income,

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Although much of the discussion of Porter's inner-city work has accepted the premise that inner-city neighborhoods are underserved, others question that assertion.[39] One study of retail location patterns in Chicago found that poor areas are in fact home to fewer retail establishments (especially drug stores, supermarkets, and banks), but when controlling for lower aggregate spending power, poor areas have just as many stores per million dollars of spending power as other parts of town. Thus, in spite of a growing concern that low-income neighborhoods are underserved by supermarkets, these areas generally have the number and size of supermarkets that their spending power alone would indicate that they could support. However, beyond supermarkets and banks, there are significant differences, including shortages (relative to spending power) of large-format drug stores, clothing stores, and restaurants, as well as fewer large stores in general. The authors conclude that this difference in retail structure is evidence that "retailers and service providers are underserving poor areas and are not responding to profit opportunities" but also that the situation is "not as bleak as many would paint it."[40]

In spite of the recent emphasis on better documentation of the untapped spending power of inner-city neighborhoods, there is some evidence that the importance of consumer demand in predicting retail locations may be overstated. Theodore Koebel studied the change in the number of neighborhood-serving retail and service firms reported by the Census Bureau's Zip Code Business Patterns file for six cities between 1981 and 1995.[41] Selecting a subset of retail and service firms (using Standard Industial Classification, SIC, codes) that were thought to primarily serve neighborhood markets rather than regional consumer markets, he compared the growth (or decline) in the number of firms by zip code with a very wide range of neighborhood characteristic variables and found little correlation. Koebel's findings are consistent with other results in suggesting that noneconomic factors including racial discrimination contribute more to changes in neighborhood commerce than do economic factors like population and income growth.[42] Some of Koebel's neighborhoods saw rising numbers of retail firms in spite of falling populations or falling incomes, while others experienced drops in the number of retail firms in spite of rising incomes.

There is also some debate about whether the fact that at least one-third of the retail spending of lower-income communities is leaking out of these neighbor-

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and attribute similar consumer preferences, hobbies, and other lifestyle traits to members of these segments. See Pawasarat and Quinn (2001).

39. Alwitt and Donley (1997).
40. Alwitt and Donley (1997).
41. Koebel (2002).
42. Immergluck (1999).

hoods should be seen as cause for concern at all. Every residential neighborhood must experience significant leakage, and there has been little analysis of how much leakage is normal. Because of the shift in preferences to large discount stores, low-income consumers may not be underserved at all; instead, shoppers of all income levels are simply driving to large-format stores outside of residential neighborhoods. However, as Kelly Clifton notes, these alternatives may not serve the poor well because they are not only price-sensitive but also time-sensitive; with a combination of income, time, and mobility constraints, low-income groups may not be able to patronize stores as regularly as more affluent clientele.[43]

Moreover, the retail structure of low-income communities may have public health consequences. Although it is debatable whether these neighborhoods have more or less retail than they can economically support, many community advocates and researchers point to health problems associated with poor access to fresh food as a sign that more grocery stores are needed. Many studies document the lack of large supermarkets in low-income neighborhoods and the associated health challenges.[44] However, recent research on "food deserts" in disadvantaged neighborhoods has found that smaller grocery stores, many with decent produce and prices, may substitute for supermarkets.[45] A recent study found that Latino consumers in particular were effectively meeting their fresh food needs through small (under 3,000 square feet) full-service stores, but that even in mixed-race neighborhoods with an adequate supply of these small stores, African American households were not being served adequately.[46] Cultural differences in the patterns of consumer demand and store-type preferences are an overlooked aspect of the "food deserts" problem.

Ultimately, consumers themselves may be the best judges of whether their neighborhoods are underserved. The Boston Consulting Group's study of retail opportunities in the inner city, for example, documents the dissatisfaction of many residents of low-income neighborhoods with the local retail offerings in terms of price, quality, and selection.[47] In such a context, it is not surprising that Freeman found that some residents perceived gentrification positively.[48]

43. Clifton (2003, 2004).

44. Chung and Myers (1999); Mari Gallaghar Research and Consulting (2006); Moore and Diez Roux (2006).

45. Short, Guthman, and Raskin (2007); Raja, Ma, and Yadav (2008).

46. Short, Guthman, and Raskin (2007).

47. Boston Consulting Group (1988).

48. Freeman (2006).

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Barriers to Retail Development

If inner-city neighborhoods are underserved, and real market opportunities exist, why are retailers slow to return to these areas? Unmet social needs or even untapped spending power alone are unlikely to motivate firms to open stores. The location preferences of any given retailer will be influenced by a large list of factors, some quite technical, beyond spending power, including

—traffic patterns;

—the availability of suitable sites in terms of size, freeway access, and other factors;

—the presence of compatible cotenants in a shopping center or commercial district;

—the perception of crime;

—the cost of development or occupancy of retail space;

—likely preferences of the local consumers for the given retailer's brand or products.

Many retailers have designed their store formats, their product selection and pricing, and their overall brand identity specifically to appeal to suburban middle-class customers. Capturing the untapped inner-city market will often require changes to the retailer's format or operating practices to meet the needs of consumers with different preferences and needs. In addition, low-income urban neighborhoods suffer from a number of unique challenges that make retail development more difficult even for those businesses that understand the market, in particular, the challenges and costs associated with developing large retail projects in the inner city; quality of life issues, particularly crime; and poor management.

Development Challenges

One commonly cited challenge for urban retail development is the relative lack of large development sites. Most urban residential neighborhoods are made up of many smaller lots, but current retail development patterns demand the large sites that are much more common in suburban areas. The need expressed by many retailers for large parking lots greatly exacerbates the challenge of finding suitable sites. Even when assembling multiple lots into a single site is possible, the process can add significantly to the overall cost of urban projects. Whereas there has been some progress in convincing retailers to experiment with new store formats that better fit into the existing urban fabric, retailers and many consumers continue to express strong preferences for larger-format retail.[49]

49. International Council of Shopping Centers (2004).

A study of the challenges faced by nineteen shopping center development projects found that the most common challenges faced by the sponsoring community development corporation (CDC) were issues related to identifying appropriate sites for new shopping centers and assembling multiple smaller parcels for larger-scale development.[50] The New Community Corporation in Newark had to take absentee property owners to court to force the sale of parcels that were key to the development of its center, while the Community Development Corporation of Kansas City had to defeat plans to build a minimum security prison before it could proceed with development of a shopping center on a key parcel in its neighborhood.

Further, developers report that retail projects in urban neighborhoods are significantly more expensive to develop because of higher land costs, greater likelihood of environmental contamination, more frequent community opposition, more complex planning and zoning regulations, and higher wages.[51]

Crime and Cleanliness

A 2004 survey of retail professionals found widespread agreement within the industry regarding the most significant barriers to new retail development in underserved markets.[52] The most commonly identified barrier, cited by 93 percent of respondents, was crime and the perception of crime. High crime rates impact business operating costs through the direct cost of theft and the higher associated security costs; but perhaps more important, high crime makes it harder to attract customers. And even areas with relatively modest *actual* crime rates often suffer from a misperception that they are high crime areas. Retailers recognize that even when they are wrong, these perceptions affect shopping behavior.

The "broken windows" theory suggested that people's sense of safety is not so directly connected to the crime rate as it is to the overall level of public order.[53] Factors such as the cleanliness of streets and sidewalks, the condition of public infrastructure, the presence or absence of graffiti, and dozens of other small factors may have a large influence over which retail locations consumers choose. Whether or not they suffer from high crime rates, urban neighborhods often suffer from lack of investment in the streetscape, buildings, and other physical infrastructure and insufficient maintenance and cleanliness efforts. Overcoming these conditions may, in some cases, be more difficult than reducing the crime

50. Abell (2002).
51. International Council of Shopping Centers (2004).
52. International Council of Shopping Centers (2004).
53. Wilson and Kelling (1982).

rate because they require changing the behavior of many public and private actors and changing social norms on the street.[54]

Management Factors

Management issues, from poor skills to other complications, also create barriers to retail development. Many of the retail businesses serving low-income communities suffer from a lack of management capacity and difficulties accessing financing and supplier networks.[55] Immigrant and low-income entrepreneurs are less likely to succeed in part because they have lower levels of education and prior business experience, as well as less capital to invest in the business.[56]

Retailers also point to higher than average operating costs for inner-city stores due to factors such as higher tax rates, higher insurance costs, greater security costs, and losses due to theft.[57] Higher average operating costs mean that many types of inner-city stores must rely on a greater than average sales volume to be profitable. As a result, inner-city commercial strips generally offer a limited variety of stores frequently offering lower-quality goods, less customer service, and higher prices—and they are less likely to survive.[58]

Strategies to Promote Neighborhood Retail Development

Local governments and community-based organizations that want to strengthen neighborhood retail markets undertake a wide range of strategies These include commercial real estate development projects supported by the public sector through direct financing or various tax incentives, market-led development strategies that rely on market research and promotion to attract new retailers to underserved areas, and coordinated commercial revitalization programs that combine business attraction with softer activities such as safety and cleanliness efforts, consumer marketing, business assistance, and smaller-scale improvements to the physical infrastructure.

Public-Led Commercial Development

The most direct intervention in neighborhood retail markets is simply to develop new commercial real estate projects. Retail development projects range from supermarket-anchored neighborhood shopping centers to smaller-scale "infill" retail development including ground-floor retail space developed in

54. Hoyt (2005).
55. Rauch (1996).
56. Bates (1997).
57. Initiative for a Competitive Inner City (2002).
58. Loukaitou-Sideris (2000).

mixed-use projects with housing above. A recent trend has been transit-oriented development projects that combine higher-density housing and retail around transit stations. These projects are frequently referred to as "catalysts" of further neighborhood development, with the expectation being that public investment in one or more key initial projects will lead to greatly increased private (unsubsidized) development activity. There is often an unstated expectation that these projects will generate jobs for neighborhood residents, offer key services to residents, and improve neighborhood safety and contribute to other quality-of-life factors.

Local governments frequently provide grants, subsidized loans, or tax or regulatory incentives to encourage development of new commercial real estate projects by private or nonprofit developers. A recent survey of planners working for thirty-two local government agencies in major U.S. cities asked about efforts to attract retail (especially supermarkets) to inner-city neighborhoods.[59] Thirteen of these cities offered some kind of financial incentives to supermarket developers; ten offered fast-track permitting, fee waivers, or parking or public safety assistance; and seven conducted or paid for market studies to help attract retailers to target sites. Another key form of local government assistance for commercial development is site assembly. A number of public agencies have undertaken the complex task of assembling several smaller parcels into a large enough site to attract outside retail developers into urban neighborhoods. This approach reduces the risk and the cost that the shopping center developer would otherwise face alone.[60]

Often local governments turn to CDCs to manage the development of neighborhood shopping centers or other retail projects designed to respond to unmet retail demand and catalyze neighborhood revitalization.[61] Several studies of CDC development have attempted to gauge the extent of this type of commercial development, with the most recent finding that 62 percent of CDCs were engaged in commercial real estate activity.[62]

Historically local governments relied on urban development action grants to fund commercial development, but since that program was terminated, they have used a variety of local and federal sources to fund these projects.[63] In 2002 an Urban Institute study found that local governments used Department of Housing and Urban Development (HUD) block grant funds to make or guar-

59. Pothukuchi (2005).

60. Abell (2002).

61. Abell (1998).

62. Gross (2005). Servon and Melendez (2006) found that 46 percent of CDCs were involved in commercial real estate development, while 72 percent conducted commercial rehab activity.

63. Abell (2002).

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antee $2.2 billion in loans to private businesses during the second half of the 1990s. The majority of this loan volume was made through the Section 108 loan guarantee program, which allows local governments to provide 100 percent loan guarantees for economic development projects with any future loan losses repaid from the community's annual Community Development Block Grant (CDBG) funds. Local governments frequently use Section 108 loans to facilitate larger business development or commercial real estate development projects. Of the Section 108 loans, 18 percent went to retail businesses and 32 percent to service businesses.[64] Many projects also benefit from tax incentives of some kind.

Redevelopment and tax increment financing. Redevelopment typically occurs through tax increment financing (TIF), which spread across the country in the wake of the urban fiscal crises of the 1970s, and is now utilized in forty-nine states and the District of Columbia. TIF allows redevelopment agencies to use the projected additional property taxes to be generated by redevelopment to finance certain development costs within a designated district. Cost-benefit analyses generally find positive results for TIF, with its primary benefit being its ability to finance infrastructure development.[65]

EZ-EC programs. Federal and state enterprise zones (EZ) and empowerment communities (EC) generally provide a set of tax incentives to encourage businesses to locate in targeted disinvested areas and hire local residents. While these programs generally do not focus primarily on retail businesses, many include retail development as one of several goals. Overall the impact of these programs has been mixed at best with several studies demonstrating that the designated EZ-EC zones did not experience greater reduction in unemployment, more job creation or business growth, or a greater reduction in poverty than that experienced by comparison areas.[66] When enterprise zones are successful, they are typically located in neighborhoods that are still economically viable and have a substantial manufacturing component.[67]

Historic Preservation Tax Credits. Enacted in 1976, the federal Historic Preservation Tax Incentives program offers a 20 percent tax credit for private investors rehabbing historic properties. Many states have enacted their own tax credit program to supplement the federal incentive. The literature suggests that these credits (and historic preservation in general) have a strong positive impact and multiplier effect, but measurement of that is complicated.[68]

64. Walker and others (2002).
65. Johnson and Man (2001).
66. Oakley and Tsao (2006); GAO (2006); Rich and Stoker (2007); Eisinger (1988).
67. Wilder and Rubin (1988), Dowall and others (1994).
68. For a review, see Mason (2005).

New Markets Tax Credits. More recently the New Markets Tax Credit (NMTC) program has used tax policy to provide federal subsidies to induce private investment in targeted low-income areas. However, unlike the EZ-EC incentives that generally benefit employers, the NMTC credits are given to investors in qualified businesses. The result may be a closer correspondence between federal subsidy and private market activity—in other words, more of a market-led approach. By the beginning of 2007, the NMTC program had led to the investment of about $5.3 billion.[69] Although the tax credits can be used to fund business loans, industrial facilities, and many other eligible uses, the majority of this investment to date seems to have been directed toward commercial real estate projects, especially those in retail.[70] While it is too soon to gauge the economic impact of this investment in urban communities, the Government Accountability Office's (GAO) initial report on the program suggests that, at a minimum, the program is spurring new investment and shifting resources away from less needy areas.[71] Yet, there may be a mismatch between lengthy development processes and the relatively quick turnaround required for NMTC projects. As a result, this funding may go to projects already in the pipeline rather than to projects that would not have happened but for the funding. The Department of the Treasury is tracking direct impacts such as the volume and type of investment, but Treasury is also interested in indirect neighborhood impacts such as increases in employment, increases in property values, and access to needed services.

Market-Led Business Attraction

Porter lamented the slow progress of publicly led retail development and called on local government to "shift its focus from direct involvement and intervention to creating a favorable environment for business."[72] Porter's work contributed to a growing sense that government subsidies might be part of the problem and that more commercial development might result if the neighborhoods were promoted on the basis of their assets rather than their liabilities. Expanding on Porter's work, researchers began documenting the dramatic market opportunities that were being overlooked by retailers.[73] The potential of this new approach was seen as so significant that two separate organizations were launched to focus primarily on developing new tools to help retailers identify market opportuni-

69. GAO (2007).

70. New Markets Tax Credit, "New Markets Tax Credits Progress Report 2007" (www..newmarketstaxcreditcoalition.org/reportsETC/newfiles/2007%20NMTC%20Progres%20Report%20-%20Final.pdf [2007]).

71. GAO (2007).

72. Porter (1995).

73. Weissbourd and Berry (1999); HUD (1999).

ties in underserved inner cities. MetroEdge, founded as a subsidiary of Shorebank and later sold to the Local Initiatives Support Corporation, focused on developing new metrics that would represent the real spending power in urban neighborhoods more accurately. For example, when traditional market analysis focused on the median income, MetroEdge encouraged retailers to look instead at total spending per square mile. The other firm, Social Compact, developed new tools for identifying undocumented spending resulting from inaccurate government statistics or informal economic activity. The unstated assumption behind these two programs seems to be that better information about the real market opportunities in underserved neighborhoods will encourage developers to build new projects and retailers to open new stores for reasons of their own self-interest. These new projects and stores would then be expected to have the same kinds of community impacts as the government-led commercial real estate projects. But where government-subsidized projects might reinforce the idea that a neighborhood is not ready for private investment, market-led development projects might be more likely to catalyze further private investment because they would signal to other developers and retailers that these markets could be profitable on their own.

Over the past decade, MetroEdge and Social Compact, together with Porter's own Initiative for a Competitive Inner City (ICIC), have produced a steady stream of reports that have called attention to the spending power of inner-city neighborhoods in one city after another. The reports regularly receive media attention and renewed calls for retailers to take a closer look at the business opportunities in these areas. While this market-led approach has successfully realigned the philanthropic, and to a lesser extent municipal, strategy toward these neighborhoods, it has yet to affect retailer behavior dramatically. A 2006 study by ICIC found that the gap between retail supply and retail demand in inner-city neighborhoods in 100 of the largest U.S. cities has "remained approximately the same for the past decade."[74] However, ICIC found dramatic differences between cities, with some experiencing 30 to 50 percent growth in retail jobs in inner-city neighborhoods during the decade while others experienced comparable declines. ICIC attributes this difference in part to the fact that "several cities with aggressive entrepreneurial mayors developed strategies for attracting retail establishments" and concludes that "national retailers, impressed with market data and the absence of competition, moved more confidently to open branches in select cities."[75]

74. Coyle (2007, p. 1).

75. Coyle (2007, p. 9). However, a brief review of the websites of Social Compact, MetroEdge, and ICIC indicates that, of the cities that have been the focus of inner-city market research, just as many fall into the group that Coyle identified as experiencing retail declines.

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The city of Indianapolis developed a "minimalist" program that followed Porter's approach by identifying sites for retail development, researching untapped spending power, and organizing local public and private sector actors to promote these opportunities. A study suggests that the effort would have been more likely to succeed if the city had identified public sector resources to help offset some of the increased cost of inner-city locations.[76] Several communities have developed more intensive programs to coordinate outreach to retailers in an effort to bring new stores into existing or planned private developments in target neighborhoods.[77] These programs are frequently developed alongside programs to support commercial real estate development. Retail Chicago is perhaps the premier example of this type of program. Staff of Retail Chicago serve as a one-stop resource for retailers interested in locating in Chicago's disinvested neighborhoods. The agency contracts with LISC MetroEdge to compile market data about the target neighborhoods, maintains a list of opportunity sites, organizes annual retailer tours, and markets inner-city retail opportunities through national and regional retail trade conventions. The program also coordinates a suite of city incentives and support programs designed to reduce the cost of opening new stores in the targeted neighborhoods. Other cities that have used retail attraction successfully are Rochester, New York, and Dallas.[78]

One assumption underlying this approach is that inner-city markets are growing. And in fact, a growing literature demonstrates how an influx of immigrants can revitalize retail, by providing both new entrepreneurs and markets.[79] However, while ICIC found that most of the inner-city areas that experienced retail growth also experienced population growth and increased household density, it identified a few cities with declining inner-city populations that nonetheless managed net growth in inner-city retail jobs. Deirdre Coyle points to Columbus, Ohio, and its "aggressive initiative to build a retail destination and attract retailers" as accounting for that city's retail growth in the face of declining inner-city population.[80] However, she notes that rather than simply promoting the untapped market potential to retailers and developers, as many cities do, Columbus also committed to locating a government building at the site, assembled parcels, offered financing for the developers, and streamlined permitting. The result was that between 1995 and 2003 Columbus's inner-city areas experienced an 8 percent increase in retail sales and a 14 percent increase in retail sec-

76. Nunn (2001).
77. Including Indianapolis under a subsequent administration (see www.focusindy.com).
78. Pothukuchi (2005).
79. Ball (2002); Min and Bozorgmehr (2000).
80. Coyle (2007).

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tor employment in spite of a 3 percent drop in population. This may indicate that market-led business attraction works best when accompanied by either strong population growth (often led by immigrants) or very significant public sector investment.

Commercial District Revitalization Programs

Comprehensive efforts to improve the strength of existing commercial districts have become increasingly popular. Either together with or instead of building new shopping centers, these programs attempt to revive the historical pattern of neighborhood-serving retail—generally small-format retail arranged along major arterials and accessed on foot with adjacent on-street parking or district-oriented public parking lots. A large number of these programs are organized according to the National Trust for Historic Preservation's Main Street model.[81] The Main Street model involves committees of local merchants, residents, property owners, and other stakeholders undertaking a long-term, coordinated strategy for district revitalization including design, promotions, economic restructuring, and organizing. There are currently more than 1,200 active Main Street programs across the country. Although the vast majority of these programs focus on downtowns of smaller cities, a growing minority of Main Street programs are focused on revitalization of urban neighborhoods. An evaluation of seven Main Street programs found that the successful programs had adapted the traditional model to the local context; of interest, it found that a program was most effective when the local government played a proactive role and also provided financial support for large-scale infrastructure or development projects.[82]

Many, but not all, Business Improvement Districts (BIDs) operate similarly comprehensive programs. BIDs are special tax assessment districts that are formed to provide special services to targeted districts. The property owners (or sometimes the businesses themselves) pay the special assessment and have the right to participate in governance of the BID, which then generally uses the funds to pay for additional public safety, cleanliness, or promotional services that benefit the entire district. BIDs are still rare in underserved urban neighborhoods but are becoming more common. In general, although BIDs are considered effective, studies have not focused on BIDs in low-income areas.[83] One exception is a study of New York's forty-one Business Improvement Districts, of which ten serve predominantly low-income neighborhoods.[84] These BIDS, however, tended to be less well funded and offered significantly less comprehen-

81. Seidman (2004).
82. Seidman (2003).
83. Houstoun (2004); Mitchell (2003).
84. Gross (2005).

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sive services, with most focusing exclusively on district upkeep and maintenance rather than on the promotion and capital improvement activities common in higher-income BIDs.

A number of CDCs have undertaken comprehensive commercial district revitalization programs as well. Some of these CDC programs follow the Main Street model, while others are organized as BIDs, but many are less formally structured. LISC has supported several dozen CDC commercial revitalization programs throughout the country.[85] Whether or not they are formally recognized as Main Street programs, CDC revitalization programs tend to be more focused on crime and safety and to use commercial real estate development as a key strategy than non-CDC programs.[86]

The specific activities undertaken by any individual BID, Main Street Program, or CDC-led revitalization program will depend largely on local circumstances and priorities. Commercial revitalization programs frequently make improvements like new street lighting, benches, trash receptacles, bicycle racks, sidewalks, curbing, street trees, bus shelters, entryways, signage, banners, murals, and pedestrian signage. These programs also undertake efforts to improve code enforcement against property owners with blighted properties, to remove grafitti in a timely manner, and to increase neighborhood greenspace. Some programs offer façade improvement loans or grants to merchants or property owners to make physical improvements to the exterior of their street-front retail spaces. These programs frequently require some level of matching financial commitment from the merchant or property owner. Less common, some communities operate tenant improvement loan or grant programs that help finance the cost of custom build-outs of retail space in targeted revitalization areas.

Crime is a major barrier to retail success in inner-city locations, and commercial revitalization programs frequently invest significant resources to reduce the level of crime and, just as important, to change the perception of safety on the part of customers and merchants by taking actions such as hiring private security firms or safety ambassadors to patrol the sidewalks, removing payphones used in drug trade, installing security cameras, organizing merchants, and implementing principles of "defensible space."[87] Lorlene Hoyt argues that in addition to direct safety activities like these, investments such as streetscape improvements, façade improvements, and increased street cleaning also have a direct impact on crime rates.[88]

85. Carlson (2003).
86. Carlson (2003).
87. International Council of Shopping Centers (2004); Houstoun (2004); Stokes (2007); Carlson (2003); Seidman (2004).
88. Hoyt (2005).

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Many revitalization programs also organize promotional activities intended to change consumer perceptions of the commercial district. Three-fourths of BIDs in one study reported conducting direct consumer marketing programs on behalf of district businesses—their most common activity.[89] However, a study of BIDS in lower-income areas found that they tended to focus their more limited marketing budgets on promoting special events, while BIDS in higher-income areas invested in broader marketing efforts to alter the identity of the district.[90] Another study found that urban main street districts have difficulty identifying a unique image that differentiates them from other areas.[91] Nonetheless many urban main street programs have succeeded in significantly changing perceptions and increasing sales through conscious branding programs.[92]

Many commercial corridor programs offer resources for improving and expanding existing retail businesses. These programs include training for business operators, assistance in accessing financing, and real estate search assistance. A recent large-scale survey of CDCs found that 65 percent had worked in the business enterprise development area.[93] Karl Seidman evaluated ten CDC-led business assistance programs participating in Boston's Community Business Network and found that, though most did not focus on specific commercial districts, several programs targeted Boston Main Street districts, and many businesses receiving assistance reported participating in district revitalization programs.[94]

Measuring the Impact of Retail Development Programs

Although the retail development approaches described above are quite different in scope and scale, they generally share a common underlying set of goals. Each of these strategies seeks to increase the level of retail activity in targeted underserved neighborhoods. Public-led commercial development and market-led business attraction both focus on bringing in new catalyst real estate projects with new stores; in contrast, the revitalization programs generally seek more incremental change, improving the quality and competitiveness of existing businesses and attracting new stores to fill existing vacancies. But in either case, expanded retail activity is likely to be seen as a means to a broader set of changes in the neighborhood as a whole. There is, however, very little agreement about how to measure the impact of these projects and programs on neighborhood revitalization and probably even about what kind of neighborhood change

89. Mitchell (2003).
90. Gross (2005).
91. Dane(1988).
92. Jacobus and Hickey (2007).
93. Servon and Melendez (2006).
94. Seidman (1999).

would be considered desirable. For the most part, evaluations have focused instead on documenting the impact of the projects on a set of intermediate indicators including job creation, tax revenue, new investment, higher property values, additional services for neighborhood residents, access to healthy food and other essential goods, reduced crime, improved perception of the neighborhood, and increased neighborhood pride. Studies have not attempted to draw direct connections between any of these indicators and overall neighborhood change, although the implication generally seems to be that changes in these factors should lead to other (presumably positive) changes in the neighborhood.

However, if retail growth in one neighborhood is indeed associated with a decline in nearby areas, then this focus on intermediate indicators may be problematic. Studies have generally neglected to look at the impact of these projects within a citywide or regional context or to evaluate whether job growth, crime reduction, and other outcomes in the target neighborhoods are associated with corresponding changes in neighboring districts.[95] This kind of interneighborhood transfer or geographic spillover would not necessarily undermine the claim that retail development is contributing to neighborhood revitalization, but it would suggest the need for better measures of neighborhood-level impact. Currently, while it is possible to evaluate whether these strategies create jobs or reduce crime, it is hard to know whether those limited changes add up to meaningful change in the overall health, attractiveness, or competitiveness of a neighborhood—or whether these strategies actually benefit existing neighborhood residents.

Job Creation

The Urban Institute study of HUD-funded local economic development loans found that only 56 percent of CDBG-funded borrowers and 52 percent of Section 108–supported borrowers met or exceeded their job creation goals. However, since a small number of borrowers exceeded their job creation goals by large margins, overall, the total number of jobs created by all HUD-funded loans amounted to 93 percent of the combined job creation goals. The same report found that the Section 108 program generated one new job for every $38,000 lent. By comparing Section 108 loan terms with prevailing private market loans, the researchers estimated that these below-market loans represented an average public subsidy of approximately $7,865 per job. Although considerably lower than the cost per job of tax incentives provided to corporations, this is considerably higher than the average grant per job created by other

95. Even studies of enterprise zones, which compare the zones with comparable nonzones, generally do not discuss whether the different outcomes are due to shifts in activity between these areas.

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federal programs identified in similar studies.[96] Furthermore, the study showed that jobs created by Section 108 loans in high-poverty neighborhoods required 25 percent more subsidy per job than those created by loans outside high-poverty areas.[97]

Many financing programs, such as TIF, do not evaluate job creation outcomes. A number of case studies have shown, though, that new supermarket development projects have led to the creation of significant numbers of new jobs and that neighborhood residents are frequently able to fill the majority of these new jobs.[98] In addition to the direct employment created in the new stores, retail development is likely to have some multiplier effect, stimulating local economic activity that results in additional neighborhood jobs beyond the new retail development.[99] Yet, there has been little research on the extent of this multiplier effect for neighborhood retail development.

Studies of empowerment zones have found few positive employment effects. In a study of six cities with federal empowerment zones, the only city whose zone neighborhoods had a significantly different outcome than the corresponding control group was New York City; the New York census tracts fared worse in reducing unemployment than the control group counterparts.[100] These and other studies have long found that the hiring tax credits are ineffective, because of unwillingness of employers to alter their hiring habits, and a more recent study of California empowerment zones detailed the abuse of the hiring tax credit, which rarely goes to disadvantaged workers.[101]

Many commercial district revitalization programs also attempt to track job creation outcomes. This is difficult because of the large number of businesses that must be contacted. Seidman found that the average urban Main Street program generated 38 net new jobs per year, a total which was comparable with the national average for Main Street programs outside of urban areas considered successful.[102] LISC documented 1,490 net new jobs created by its six pilot neighborhood Main Street programs over a four-year period—an average of 62 jobs per district per year.[103] Studying the results of new Main Street programs in Boston between 1996 and 2000, Seidman found wide variation in the total

96. Markusen (2007).
97. Walker and others (2002).
98. Abell (1998); Food Marketing Institute (1993).
99. Dixon (2005).
100. Rich and Stoker (2007).
101. California Budget Project. "California's Enterprise Zones Miss the Mark" (www.cbp.org/pdfs/2006/0604_ezreport.pdf [2006]).
102. Seidman (2004).
103. Carlson (2003).

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number of jobs created, with the Hyde Park program generating 166 net new jobs while the Hyde/Jackson Square program created only six.[104]

Whether they are created by new real estate development or revitalization programs, it is likely that some of these jobs are being filled by neighborhood residents.[105] A 2000 study of the economic impact of the Fruitvale Main Street program in Oakland, California, found that 58 percent of district retail employees lived in the immediate neighborhood.[106] Neighborhood retail jobs are less than ideal, however: not only do they pay low wages and rely on part-time or temporary workers, but retailers offer the least on-the-job training of any business sector and offer relatively few supervisor positions, thus failing to facilitate upward mobility.[107] Nevertheless, they may serve as an entry point to the workforce for young or discouraged workers, and they provide key work experience, which leads to better jobs later. The Initiative for a Competitive Inner City cites lower employee turnover in inner-city retail stores as an advantage for businesses but low turnover may also occur because employees in these stores are using these opportunities as permanent career jobs instead of moving up.[108] Further research is needed to determine the extent to which neighborhood residents are moving successfully from local retail jobs into other career paths.

Vacancy Rates

A common goal of commercial development programs is to fill vacant commercial space. Despite this, it appears that comprehensive data have not been collected on the impact of new commercial real estate development projects on occupancy rates of surrounding commercial properties.

Commercial district revitalization programs, however, seem to have had more success in evaluating their impact. Jerry Mitchell conducted a survey of BID managers and found that the majority (55 percent) of BIDs are tracking vacancy and occupancy rates, which is the most frequently used benchmark for BID success.[109] Suzanne Dane's report on Main Street programs (mostly in rural areas) documented an average decline in vacancy rates from 21 percent to only 5 percent over a nine-year period.[110] Seidman studied the reported results of fourteen urban Main Street programs and found an average of eight net new businesses were created each year in the Main Street districts.[111] Seidman's earlier study of

104. Seidman (2001).
105. Abel (2002); Dunford (2006).
106. Marketek (2000).
107. Bernhardt (1999).
108. Initiative for a Competitive Inner City (2002).
109. Mitchell (2003).
110. Dane (1988).
111. Seidman (2004).

Boston Main Street programs found that between 55 and 88 percent of businesses reported that the Main Street program had improved their performance.[112] During the first four years of the Main Street pilot in Oakland's Fruitvale neighborhood, ground-floor, street-front commercial vacancy rates declined from 12 percent to less than 1 percent.[113]

Private Investment

Investment of public or charitable resources into retail development projects or programs is thought to lead to greater private investment in the same areas. Commercial real estate projects are frequently referred to as catalysts, with the implication being that one or two key projects with public subsidy can lead to a self-sustaining process of private reinvestment in distressed neighborhoods. Commercial corridor programs similarly describe increased private investment as a likely outcome of activities such as street cleaning, façade improvement, and safety improvements.

Of commercial district programs, one study showed that formation of a BID in Maplewood, New Jersey, led to a significant increase in private building permit activity.[114] Seidman found that successful urban Main Street programs had similar effects and generated an average of $1 million in public and private investment each year.[115] Much of this investment was associated with building projects ranging from major renovations to minor storefront improvements. Seidman found that urban Main Street districts experienced an average of eleven such projects per year. Between 1996 and 2000, LISC and the National Main Street Center undertook a pilot Neighborhood Main Street Initiative that involved an investment of just over $3 million to create and sustain six new urban Main Street programs. During a four-year period, these demonstration sites closely tracked outcomes and documented more than $35 million in new public and private investment in the target areas. One site, Frankford Avenue in Philadelphia, generated nearly $10 million in private investment as a result of thirty new businesses that opened on the avenue during this time.[116]

For commercial real estate development projects, tracking of the impact on investment in surrounding properties is uncommon. Yet, there have been several studies that have shown that direct public investment in these projects leverages significant private investment in the same projects.[117] But the type of investment matters. For instance, in the survey of local government supermarket attraction

112. Seidman (2001).
113. Marketek (2000).
114. Seidman (2004).
115. Seidman (2004).
116. Carlson (2003).
117. Walker and others (2002); GAO (2007).

programs, twelve of the nineteen cities with EZ or EC designations reported efforts to attract new supermarkets, but only three targeted those efforts within the EZ-EC boundaries. These three (Buffalo, Atlanta, and Bridgeport, Connecticut) all reported no success in leveraging EZ-EC resources to attract new supermarket development.[118]

Historic preservation is generally thought to leverage private investment. Yet, while historic district designation has been associated with large increases in residential property values, there is apparently no correlation between historic district designation and increased commercial property values.[119] That may be due to any number of factors and seems to suggest that even the relatively more generous historic preservation tax credits are not sufficient to generate significant increases in economic activity or dramatically alter the location decision of most private businesses. But preservation tax credits, when combined with a Main Street program, do seem to have a significant impact.[120]

Public Investment

Urban neighborhoods compete for attention and support from local government. Commercial revitalization advocates argue that increased attention and organization at the community level combined with increased private investment should result in increased investment on the part of local governments. A key function of BIDs is their ability to "negotiate with politicians and municipalities on behalf of business owners" and "work to garner additional services."[121] Among Main Street programs nationwide (mostly in rural towns), only 37 percent report that the program led to increased investment in the district by local government; but LISC's evaluation of its Neighborhood Main Street Initiative and Seidman's evaluation of Boston's Main Streets Program both suggest that urban Main Street programs are far more likely to succeed in increasing service levels and public capital investment.[122] This may be due to the fact that urban commercial revitalization programs are unlikely to be launched at all in the absence of political support from local government.

Tax Revenue

Successful commercial development should result in immediate increases in local sales tax revenue and longer-term increases in property tax revenue, from the development project and from the surrounding properties. Apart from an

118. Pothukuchi (2005).
119. Asabere and Huffman (1991).
120. Listokin, Listokin, and Lahr (1998).
121. Hoyt (2005).
122. Carlson (2003); Seidman (2001).

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evaluation of the Faneuil Hall project in Boston, which found significant but very small positive changes in land prices and rents in the vicinity of the project, there is only very anecdotal evidence for this positive impact of commercial real estate development projects on property values and sales in the surrounding district.[123] One study found, for example, that a new Stop & Shop supermarket in the Hyde/Jackson Square neighborhood attracted new shoppers, raised rents, and led to increased sales by nearby businesses—including increased sales for half of the existing independent grocery and convenience stores.[124]

Studies of redevelopment typically measure impact in terms of property values (and tax revenues), finding that TIFs generally cause growth beyond what would be expected in the absence of redevelopment finance.[125] However, critics charge that TIF districts generally fail to generate enough revenue to pay back for the lost property tax revenue and that the programs fail to reimburse local governments adequately for lost revenue.[126]

By contrast, commercial district revitalization programs have repeatedly documented positive impacts on districtwide sales and sales tax receipts. A study of California Main Street programs (mostly in rural areas) found that during a period when statewide sales taxes increased by 77 percent, the sixteen Main Street districts increased tax revenues by an average of 105 percent.[127] Surprisingly, only 19 percent of BIDs reported tracking taxable retail sales as a benchmark of BID success.[128] Nonetheless, many BIDs report increased sales tax revenue as a result of BID activity. In Boston's Hyde Park Main Street district, for example, 40 percent of businesses reported that their sales increased by 25 percent or more during the first five years of that program.[129] It is unknown whether these increases were accompanied by decreases in neighboring districts.

Crime and Safety

By increasing capital investment, removing blight, and improving cleanliness, commercial corridor programs are thought to reduce the liklihood of crime. And in fact, a study of BIDs in Philadelphia found that, relative to comparison neighborhoods, the BID areas experienced fewer crimes and, in particular, fewer thefts and other property crimes or crimes that typically would be directed at retail district visitors.[130] Commercial development projects may also have a posi-

123. Sagalyn (1989).
124. Hernandez (2001) cited in Seidman (2002).
125. Dardia (1998); Johnson and Man (2001).
126. Dardia (1998); Weber (2003).
127. Kelley (1996).
128. Mitchell (2003).
129. Seidman (2001).
130. Hoyt (2005).

tive impact on crime rates in the surrounding areas because of the presence of paid security and as a result of additional "eyes on the street," but there appears to be no research into this aspect of these projects.

Some BID critics have suggested that crime reductions in BID districts are not due to actual reductions in overall crime but are merely the result of crime moving to other areas, another reason why establishing a regional unit of analysis is needed.[131] This is an important point but one which has been scarcely studied. If crime reduction is itself a goal, then such a finding would undermine some of the value of commercial district programs. However, if crime prevention is seen as a means to the end of improving the relative competitiveness of a given commercial district or neighborhood, then even relocating crimes might be considered evidence of neighborhood revitalization.

Community Identity

Commercial revitalization may reshape community identity in two ways: individual or neighborhood. Recent work on the sociology of social exclusion may shed some light on how neighborhood retail development might affect resident self-perception. *Retail exclusion* also has important implications for self-identity.[132] Shopping is increasingly seen as a means of self-expression and as a tool for constructing a personal identity. Consumers who are unable to participate in this aspect of our culture may define themselves as "excluded shoppers." Even consumers with enough income to purchase essential goods may come to see themselves as being excluded because of the mode through which they purchase. In a situation when goods were acquired informally, the consumer would have preferred to purchase from a traditional retailer but was unable to do so because of cost and the inaccessibility of retail stores.[133]

Many urban consumers are either discouraged from accessing stores outside their neighborhood or feel uncomfortable in these environments.[134] Social exclusion works in both directions to disadvantage lower-income communities: low-income residents, minorities, the youth, and seniors may all feel unwelcome in mainstream stores outside their neighborhood, and similarly, outsiders are less likely to patronize stores in inner-city communities because of the presence

131. Briffault (1999).

132. Williams and Windebank (2002).

133. This section is based on research by Williams and Windebank (2002), who conducted in-depth interviews with 400 consumers in low-income neighborhoods about their methods of acquiring various essential household goods and found that a large number of these consumers are purchasing products such as TVs, cars, clothing, and furniture through informal channels or secondhand stores rather than through traditional retail outlets.

134. Turner (2004).

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of these groups.[135] In this sense the retail patterns in lower-income communities may have social implications beyond the purely economic factors that are typically considered.

However, many commercial development programs point to changes in the neighborhood's identity as a key outcome. Many Main Street programs and BIDs regularly measure consumer perceptions of the commercial district and document improvements over time.[136] To the extent that successful retail development requires overcoming this kind of self-segregating behavior on the part of consumers, these programs can be seen as affecting not only neighborhood identity but individual self-identity.

Overall, this review of retail strategies and their impact suggests that commercial district revitalization strategies have a demonstrably positive effect on retail revitalization. Less is known about the effectiveness of public-led commercial development and market-led retail attraction strategies (see table 2-1). In terms of the impact of these strategies on neighborhood revitalization, we can really only speculate, since there is very little evidence. In general, it seems that leveraging public investment is key no matter which strategy is followed. Commercial district revitalization programs are the most promising in terms of improving neighborhoods, perhaps because they focus more directly on quality-of-life issues such as crime. This example suggests the importance of incorporating desired outcomes into program design. If crime is a major obstacle to business attraction, then attraction programs should include security as a design feature. Although the business cycle will affect the ability of programs to achieve some outcomes, such as reductions in vacancy rates and increases in property tax revenue, policymakers can clearly design programs to be more effective. They can easily build incentives into programs to leverage more private or public investment, by requiring matching funding. They can also help spur more job creation for local residents, for example, by requiring local hires or partnering with job training or apprenticeship programs.

A Quantitative Analysis of Retail Development and Neighborhood Change

What is the relationship between retail development and neighborhood revitalization? As discussed previously, research suggests that retail growth may not respond to changes in household income—in other words, as upper-income residents move into an area, retail revitalization does not necessarily follow.[137]

135. Turner (2004).
136. Seidman (2001); Mitchell (2003).
137. Koebel (2002); Immergluck (1999).

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Table 2-1. *Retail Strategies, Goals, Impact, and Unknowns*

Goal	*Impact on retail revitalization*	*Impact on neighborhood revitalization*	*Remaining questions*
Job creation	Commercial developments create many jobs but often at a high public investment per job created. Revitalization programs are more cost-effective but generate only modest job growth.	Residents are likely to fill many of the new jobs, particularly in corridor projects. However, job quality is likely to be poor.	What are the multiplier effects for local retail jobs? What is the overall economic impact of new retail jobs? To what extent do neighborhood retail jobs provide an avenue to better jobs?
Vacancy rate	Corridor programs have a documented impact on occupancy and appear to be an effective strategy for filling vacant space.	Declining vacancies can alter perceptions of an entire neighborhood.	What is the impact of new shopping center development on surrounding occupancy?
Private investment	Real estate projects all involve direct private investment, and there is some evidence that commercial corridor programs can lead to increased private commercial investment as well.	Retail revitalization programs are associated with an increase in residential building activity.	Do commercial real estate projects lead to increased private investment in neighboring properties?
Public investment	Commercial development projects frequently involve increases in public investment in the target area.	Infrastructure development related to commercial projects can help revitalize neighborhoods as well.	How does leveraging from all sources work?
Tax revenue (and property values)	Increased retail activity clearly increases sales tax revenue and likely adds to property tax revenue.	Retail revitalization may increase residential property values as well as commercial values.	Is the increase enough to offset investment in these programs? Are tax increases in one district offset by decreases in nearby retail districts?
Crime and safety	Revitalization programs can clearly cause reductions in crime within targeted commercial areas, though some of this crime may simply be moved to other areas.		Is the documented crime reduction due to safety programs or to the impact of economic development (that is, more stores, eyes on the street, and so on)? What impact do commercial real estate projects have on crime?
Community identity	The extent to which retail development impacts the overall image of the community and the self-image of neighborhood residents is still largely unexplored.	From a sociological perspective on exclusion and a planning perspective on activity patterns, local retail should help improve individual and community image.	How much does the presence or absence of retail influence who chooses to live in the neighborhood?

Source: Authors' analysis.

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Research has yet to examine the converse: the type of neighborhood revitalization that follows retail revitalization. Models suggest that job creation, private and public investment, rising property values, better access to services, and improved community identity will benefit residents, either directly or indirectly. Yet, to what extent do these benefits accrue to existing residents instead of newcomers? Will neighborhood revitalization take the form of transformation from a low-income to a moderately low-income, mixed-income, or upper-income neighborhood? Is retail best seen as a tool for attracting upper-income residents or retaining and developing the middle class?

In the following discussion, we look in more detail at the association between retail and neighborhood revitalization in the San Francisco Bay Area (the Bay Area) by linking zip code–level data on retail change (measured in terms of establishments, employees, sales, business mix, start-ups and deaths, and chains or stand-alone stores) to census tract–level data on neighborhood change. One of the most affluent regions in the country, with some of the highest income inequality, the San Francisco Bay Area has unique concentrations of neighborhoods either gentrifying or becoming more bipolar, and thus it offers the opportunity to look at a variety of patterns of retail revitalization. This pilot study reveals a surprisingly strong relationship between retail revitalization and an increase in middle-income households.

Methodology

For this analysis, we start with recent definitions of neighborhood change from George Galster and Jason Booza as well as Freeman to create a typology of neighborhood change from 1990 to 2000 that include the following categories: "bipolar," "gentrified," "more middle income," "more lower income," "more upper income," and "other."[138] We use the Neighborhood Change Database (NCDB) developed by Geolytics, Inc. The NCDB provides 1990 census data for normalized 2000 census tract definitions, allowing us to compare 1990 neighborhood characteristics with those of 2000.

To construct the typology, we first had to convert the census data on household income from ten to sixteen irregular categorical variables (in 1990 and 2000) into consistent and meaningful groups. Following Galster, we create six income categories that are relative to the area median income (AMI) for the ten-county San Francisco Bay Area (which includes Santa Cruz).[139] These categories are the following:

—very low income (less than 50 percent of AMI)

—low income (50 percent to 79.9 percent of AMI)

138. Freeman (2005); Galster and Booza (2007).

139. Booza, Cutsinger, and Galster (2006).

—moderate income (80 percent to 99.9 percent of AMI)
—high to moderate income (100 percent to 119.9 percent of AMI)
—high income (120 percent to 149.9 percent of AMI)
—very high income (150 percent of AMI and above)

Following Berube and Tiffany and Galster and others, we use two different methods to aggregate the finer (census) distribution into our six categories.[140] First, we calculate the area median income using the linear interpolation method.[141] Then, for each census tract in the Bay Area, we calculate the share of households in each of the census categories and their cumulative density.[142] Galster and Booza identified neighborhoods that are bipolar using a formulation based on the entropy index.[143] The entropy index is based upon the thermodynamic principle that any system will naturally trend toward evenness. The amount of entropy in a system refers to how far along a system is in reaching complete evenness. In the social sciences, researchers have developed an index that ranges from 0 (lowest entropy, meaning that the entire population is in the same category) to 1 (highest entropy, meaning that the population is evenly spread among all categories) to measure entropy of a population across social categories.[144]

In addition to this nominal entropy index, Galster and Booza constructed a new ordinal entropy index and used the ratio of the two to measure *bipolarity* in a tract, that is, the extent to which the population is disproportionately concentrated in the lowest and highest of the six income groups. There are 220 bipolar tracts in the San Francisco Bay Area, about 16 percent of the total (see figure 2-2).

To determine the extent of gentrified neighborhoods, we use the compound measure from Freeman, including tracts that have

140. Berube and Tiffany (2004); Galster and others (2005).

141. We chose to calculate this figure from the Geolytics tract-level data instead of using the raw overall figure from the census summary files for consistency reasons. Specifically, there is a small possibility of measurement error introduced by Geolytics' spatial interpolation of data from pre-2000 tract geography to a consistent geography. Comparing such interpolated tract-level data to an externally obtained median could introduce additional error.

142. In aggregating to our six categories, we used linear interpolation to find breakpoints within a census category for those at or below the median income. However, we assumed that the distribution of households within the higher-income categories follows a Pareto distribution. This assumes that there is more density toward the lower cutoff.

143. Galster and Booza (2007).

144. This index, also called the Shannon-Weaver Index, is defined as

$$H = \frac{-\sum_{i}^{k} \pi_i \ln \pi_i}{n},$$

where H is the index, π is the proportion of the population in each category, and k is the number of categories.

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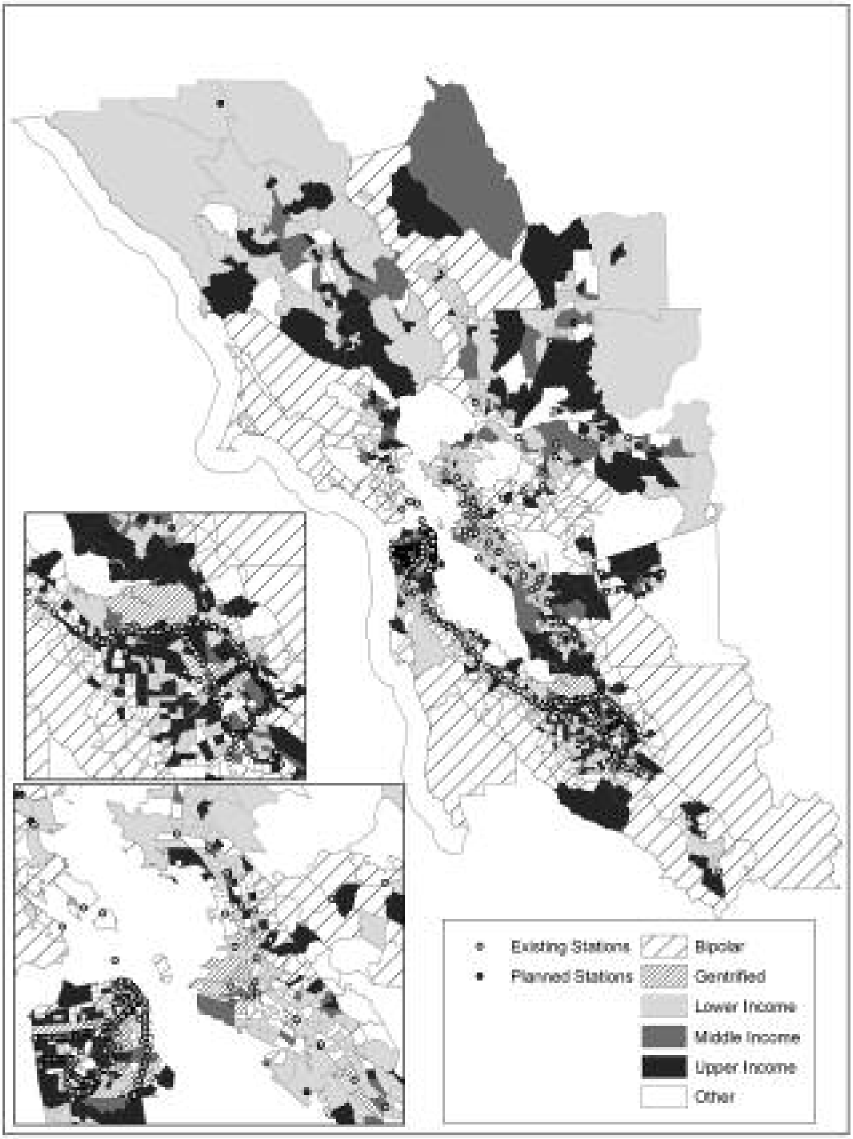
Figure 2-2. *A Typology of Neighborhood Change in the San Francisco Bay Area, 1990–2000*



Source: Authors' analysis.

—a median income less than the 40th percentile for the Bay Area as a whole in 1990 ($33,670),

—a proportion of housing built from 1980 to 2000 that is lower than the proportion found at the 40th percentile for the Bay Area (10.7 percent),

—a percentage increase in educational attainment (that is, some college) that is greater than the median increase in educational attainment for the Bay Area between 1990 and 2000 (7.4 percent),

—an increase in real housing prices from 1995 to 2002 that is greater than the median for the Bay Area (70.2 percent).

Freeman also includes a central city designation in his definition, but since the Bay Area includes some neighborhoods that may be gentrifying outside of its few central cities (such as Berkeley and Richmond), we excluded this criterion. There are 102 gentrified tracts in the Bay Area, more than 7 percent of the total. It is interesting that there is little overlap between the bipolar and gentrified tracts, just as Galster and Booza have suggested: only three tracts are in both categories (which we classified as gentrified).

We use a relatively simple calculation to identify neighborhoods that are becoming more middle income, lower income, or upper income. Change in middle-income neighborhoods occurs when the share of population in the two middle-income categories is greater in 2000 than in 1990 and is more than 25 percent by 2000. Ten percent (141) of Bay Area tracts are becoming more middle income; just eight overlap with the gentrifying category, and we classified them as gentrified. Likewise, lower-income change (448 tracts, 32 percent of the total) occurs when the share in the two lower-income categories is greater in 2000, and the ending point is at least 25 percent, and upper-income change (300 tracts, 21 percent) occurs when the share in the top two income categories is greater in 2000, with a ending share of 25 percent or more. "Other" (185 tracts) is a residual category and seems to consist of a mix of tracts where there is no systematic pattern of change.

Of these six forms of neighborhood change, three relate directly to neighborhood revitalization. Neighborhoods that gentrify are shifting from low-income to upper-income status, which is a common definition of revitalization. Neighborhoods that become bipolar are gaining at both ends of the distribution, simultaneously revitalizing and declining. Neighborhoods that become middle income are revitalizing by gaining in the middle, often becoming more mixed income in the process. Also of interest, but less pertinent to our discussion, are two of the other neighborhood change types. Neighborhoods that become upper income are in a sense revitalizing, but from a higher-income base than that of the gentrifying neighborhoods. Neighborhoods becoming lower income are actually declining.

For the retail database, we use a private sector–generated time series database of individual establishments, the National Establishment Time-Series database (NETS), which combines annual Dun and Bradstreet entries into a time series from 1990 through 2005. This database provides us with detailed data on individual establishments over time, from establishment births (if post 1989) through current operations or deaths. Whereas government sources can provide some similar research opportunities, barriers to access to the disaggregated forms of this data are high. Further, the NETS database offers access to detailed data relevant for creating a clean database of retail establishments; for instance, we can eliminate headquarters and identify chains.

In this analysis, we include a variety of retail and service establishments, most locally oriented, based on a list of industry codes used by the Local Initiatives Support Corporation's commercial corridor program. To exclude outliers from home-based businesses to national headquarters, we include only non–headquarter establishments having more than one employee and less than $50 million in sales. We look at retail revitalization by zip code. Although the zip code is not an ideal proxy for a retail market area, it can give a sense of retail opportunities in and adjacent to neighborhoods. Since zip codes may include multiple census tracts, we weight each zip code by the share of housing units in each category of neighborhood change. For instance, 79 percent of San Francisco's Mission District (94110) is becoming more gentrified, and 21 percent is becoming purely upper income.

Findings

We first examine some simple indicators of retail revitalization—an increase in retail and service establishments, in sales, and in employees—in relation to neighborhood change. We focus in particular on the relationship of retail to the neighborhoods that become more middle income, since this type of change seems to be what most are referring to when they speak of neighborhood revitalization.

Retail and service establishments grew generally throughout the region (by about 16 percent), with much less growth in bipolarizing and gentrifying neighborhoods and an overconcentration of growth in the neighborhoods becoming middle income (table 2-2). This shows an association that might go either way: the growth of middle-income groups might have attracted new establishments to the area, or retail and service growth might have attracted new middle-income residents.

Of note, the difference in growth in total sales was quite dramatic across neighborhoods, with just 19 percent and 23 percent growth in bipolarizing and gentrifying neighborhoods, respectively, compared with 34 percent in neighbor-

Table 2-2. *Change in Establishments, Sales, and Employment, by Neighborhood-Change Type*

Neighborhood-change type	Number of establishments			Percent change 1990–2005	
	1990	*2005*	*Percent change*	*Sales*	*Employment*
Bipolar	21,466	23,629	10	19	3
Gentrified	9,564	10,544	10	23	9
Middle income	9,761	11,626	19	34	13
Lower income	32,193	38,068	18	35	12
Upper income	23,254	27,532	18	38	14
Other	12,783	14,934	17	32	10
Overall	111,012	128,339	16	34	12

Source: Authors' analysis.

Table 2-3. *Change in Retail Establishments, Employment, and Sales for Middle-Income Neighborhoods in 1990*

Neighborhood-change type	Percent change 1990–2005		
	Establishments	*Employment*	*Sales*
Middle income in 1990	23	20	48
Not middle income in 1990	16	11	31

Source: Authors' analysis.

hoods becoming middle income, 35 percent in neighborhoods becoming lower income, and 38 percent in neighborhoods becoming upper income. Likewise, growth in employment occurred disproportionately in these three types of neighborhood change. Again, although it is not clear whether neighborhood revitalization led retail revitalization or the reverse, it is interesting to note that middle-income neighborhoods started with much higher average sales per establishment ($605,000 compared with $567,000 across all types). This provides some evidence that a concentration of retail was attracting new middle-income residents.

To analyze the chicken-and-egg question more directly, we next looked at how neighborhoods that were middle income at the start, in 1990, fared in terms of retail revitalization. Table 2-3 suggests that retailers are strongly attracted to middle-income neighborhoods; areas that were middle income in 1990 saw more than 50 percent higher growth in both establishments and sales, and almost twice as much growth in employment, relative to the corresponding growth in non-middle-income neighborhoods. Thus, it seems likely that the existing middle-income composition of the neighborhood in 1990 sent a signal to retailers as much as did the influx of more middle-income residents in subsequent years

Overall, these indicators suggest that retail revitalization is more likely to occur in neighborhoods that are becoming middle income or upper income than in those that become bipolar or gentrified (or vice versa: middle-income neighborhood revitalization is occurring where retail revitalization is significant). One explanation for this that warrants further exploration is whether retailers respond more positively when a group, such as middle-income residents, concentrates, since retailers then know what market niche to fill. Another theory is that neighborhoods that are becoming bipolar or gentrified are sending some sort of negative or mixed signal to the market. That the "other" type, a residual category with no clear change pattern, also experiences disproportionately low revitalization suggests that this confused signal may be the problem. A third possibility is that the types of areas that are becoming more middle income or upper income are simply more likely to house the types of retail that are growing, such as the big box store (because of urban design factors).

Though the NETS data do not allow us to explore these theories systematically, they do offer potential when considering four other hypotheses:

—Neighborhood revitalization is related to the share of independent establishments (as opposed to chains).

—Neighborhood revitalization is more likely to occur when there is a supermarket in the beginning period.

—Neighborhood revitalization occurs because of start-up businesses.

—Neighborhood revitalization is related to the mix of businesses in the neighborhood.

As it turns out, middle-income change areas not only housed a disproportionate share of chains at the beginning of the period, but also they were substantially more likely to see new chain stores come in (table 2-4). This suggests that the availability of chain stores may positively affect neighborhood revitalization.

However, areas in which the middle-income groups are growing do not need a supermarket to do well. Overall, areas that had a supermarket in 1990 experienced far greater sales growth; the one exception was neighborhoods with a growing middle class, which experienced roughly the same sales growth even without a local supermarket (table 2-5).

One reason that areas that are becoming middle income may fare better than bipolarizing and gentrifying neighborhoods is their ability to attract start-up businesses. Table 2-6 shows that start-ups are more attracted to middle-income—and, interestingly, lower-income—neighborhoods than to bipolarizing or gentrifying areas.

Table 2-4. *Share of Chain Stores, by Neighborhood-Change Type, 1990–2005*
Percent

Neighborhood-change type	*1990*	*2005*
Bipolar	8.7	11.0
Gentrified	8.9	11.6
Middle income	11.8	14.9
Lower income	10.4	13.2
Upper income	9.1	12.0
Other	9.7	12.7
Overall	9.4	12.3

Source: Authors' analysis.

Table 2-5. *Change in Average Sales, by Neighborhood-Change Type with and without a Supermarket, 1990–2005*
Percent

	Change in average sales, 1990–2005	
Neighborhood-change type	*With supermarket in 1990*	*Without supermarket in 1990*
Bipolarizing	42	9
Gentrifying	41	11
Becoming middle income	17	17
Becoming lower income	34	20
Becoming upper income	44	19
Other	42	17
Overall	35	16

Source: Authors' analysis.

Table 2-6. *Share of Start-ups, by Neighborhood-Change Type*
Percent

	When establishment started			
Neighborhood-change type	*Before 1950*	*1951–90*	*1991–2000*	*2001–05*
Bipolar	4	54	33	9
Gentrified	6	52	34	8
Middle income	3	50	35	12
Lower income	4	51	34	11
Upper income	4	51	35	10
Other	4	51	34	11
Overall	4	51	34	10

Source: Authors' analysis.

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Finally, areas that are becoming middle income tend to have a similar retail and service mix compared with that of other neighborhoods, with similar shifts to services and nonprofits from 1990 to 2005. However, they tend to be more diverse across the sectors: based on an entropy index ranging from 0 (perfectly homogeneous) to 1 (perfectly diverse), the neighborhood-change types score from a high of 0.90 for middle-income areas to a low of 0.87 for bipolarizing and gentrifying neighborhoods.

In sum, this exploration suggests that the way the retail sector changes is closely related to how the neighborhood changes, with middle-income revitalization most closely associated with retail revitalization. Further research should explore the dynamic in more detail.

Conclusion and Thoughts for Further Research

If neighborhood retail development contributes to broader community revitalization, it seems unlikely that it does so by dramatically increasing the employment or wage levels, the labor force participation rates, or the overall level of financial assets, although these changes can help. It seems that certain kinds of public investment in retail development (particularly corridor programs) can catalyze further private commercial development and, in at least some situations, this public investment can be recaptured through increased tax revenues. However, none of this activity indicates that there is a much broader impact on the well-being of the surrounding community. It may not even have a positive impact on the local economy as a whole, since the retail activity generated by new commercial development, business attraction programs, or corridor revitalization programs may simply be shifting economic activity between places. Despite this, the persistent call for these programs is itself a strong indication that there are real needs to which these programs are effectively responding—even if those needs are not always that well articulated by program advocates.

If retail development has large-scale impacts on community economic health, it may be through more indirect outcomes including changes in internal and external perceptions of the neighborhood and ultimately changes in neighborhood residential composition. Because neighborhood-level retail growth is closely associated with middle-income growth, retail development may be a key component to building the kind of stable mixed-income communities that are most likely to positively affect existing low-income residents. However, existing studies of the effectiveness of neighborhood retail development strategies have not explored these broader impacts.

Rather than assuming that any neighborhood improvement leads ultimately to displacement of the poor, this research suggests that more than one kind of

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neighborhood change is possible. Further research is necessary to establish whether low-income residents face better outcomes living in middle-income or bipolar neighborhoods, but it seems likely that middle-income neighborhoods would offer more amenities because of their ability to attract more retail growth. It is unclear to what extent this association is due to retailers following middle-income households as opposed to middle-income consumers strongly preferring locations with nearby retail. It seems likely that both factors play a role, though certainly a community that starts out as middle income sends a clear signal of a sound investment opportunity to retailers. The limited time frame of the NETS data (1990 to 2005) limits our ability to explore whether the retail or the residential growth comes first.

If outcomes for the poor are tied to the specific character of neighborhood change, then further research might suggest specific retail development strategies that most likely will benefit the poor and lead to stable mixed-income communities without contributing to displacement of the poor. This research suggests that chain stores are associated with neighborhoods that are becoming more middle income—and thus, attracting chain stores may be one way to stabilize the neighborhood. Further research is needed to better understand, for example, whether certain types of establishments (restaurants, bars, and so forth) are more likely to contribute to gentrification while others (drug stores, groceries, and the like) lead more often to middle-income neighborhoods.

We have explored the relationship between neighborhood demographic change and the subsequent change in retail activity, but further research might allow us to better understand the relationship between the beginning level of retail and subsequent demographic changes. Does the presence or absence of retail (or, again, certain types of retail) lead to subsequent changes in income composition?

In spite of the recent academic literature and public effort focused on better documenting retail demand in low-income neighborhoods, it may be the case that demand is not the key factor that determines retail locations. This research suggests, in fact, that the existing composition of the neighborhood matters, and shifts in demand, such as increases in the high- and low-end of the markets, may be confusing retailers. If much of the neighborhood-level retail growth is due to the competitive dynamics between neighborhoods, with activity shifting between nearby locations, what accounts for these shifts? Future research should focus more on the contribution of supply-side factors, particularly business mix, to retail location decisions. To generate more meaningful policy implications, it will be necessary to drill down to the corridor level, rather than analyzing business patterns at the zip code level as is most commonly done in this type of research.

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To understand these questions and craft more effective policy interventions, better data are necessary. The NETS data are a convenient source of the address-based longitudinal data that are required to understand retail markets, but they fall short in several regards. First, because this database is developed by a private vendor, its cost is prohibitive for many researchers. Second, researchers report that its employment numbers may be inaccurate.[145] Finally, research on retail revitalization needs to take into account many different outcomes, including changes in crime, tax revenue, vacancy rates, indirect investment, and other indicators. To advance this field, it would be helpful to have government agencies, such as the Small Business Administration and the Department of Housing and Urban Development, work together to collect data on these revitalization outcomes at the level of the address and neighborhood. Until the collection of data becomes more systematic, our studies of revitalization will remain mostly speculative.

145. Panel discussion on "Employment Dynamics, Firm Movement, and Establishment-Level Time-Series Data," Association of Collegiate Schools of Planning Annual Conference, Chicago, July 9, 2008. For the Dun and Bradstreet data, phone surveyors ask employers to estimate numbers of employees, and if they decline to provide new data, surveyors simply use the total from the previous year. Further, employers may give a total number of employees, rather than the number employed at one specific location.

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