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Chapter 7: Economic incentives and investment strategies for revitalizing under-served neighborhoods

7.1. Introduction

Despite over 25 years of federal, state, and local efforts at revitalizing distressed neighborhoods in both central cities and rural areas, we still do not know very much about the circumstances under which such public sector efforts can effectively leverage the private sector to invest in these areas. Most recently, such anti-poverty policies have stressed, with some success, rehabilitation efforts that attempt to create an attractive business environment in an area that experiences a 25% commercial occupancy ratio or worse. Similarly, the low-income housing tax credit has shown some potential for stimulating new housing in these areas, though we are at best subject to the First Law of Alcoholic Dynamics in terms of proof from this evidence. Clearly, this history contains too many scars from unsuccessful attempts at revitalizing these areas to be very confident of how to do so reliably. Accordingly, the purpose of this paper is to bring a different set of analytical tools to bear on this problem for two reasons. First, the available evidence is inconclusive about which strategies work and which do not, and whether the conditions in any neighborhood are suitable for revitalization in the first place. Second, many of the existing programs rely on public subsidies to stimulate a private sector response, and these subsidies are always in short supply, making their allocation an important policy issue.

7.1.1. Overview of the Study

This paper offers a set of economic incentives and investment strategies for assisting city council members and urban managers to revitalize underserved neighborhoods in an efficient and cost-effective manner while avoiding costly errors and harmful side effects.

One way to view our problem is as a public good problem: by their actions, landlords and resident groups tend to produce a spillover, creating a cleaner, safer, and more beautiful neighborhood for all to enjoy. The greater the number of people who pool their resources, the greater the social return. Unfortunately, there are several potential impediments to the provision of this public good. There is asymmetric information, a free rider problem, high costs of organization, and perceived bureaucratic inefficiencies in implementing this public good. Our specific goal in this study is to examine the ways in which city council members and urban managers can light a verbal match that quickly leads to the pooling of resources needed to revitalize an underserved neighborhood. We are aware that all the individuals involved in this public good dilemma cannot afford to participate. Despite this, we believe that much can be done with the participation of some tenants, some landlords, and one neighborhood developer to compensate for market failure. Indeed, we believe that referral can substitute for the economic incentives that might otherwise encourage more extensive pooling.

7.2. Understanding Under-Served Neighborhoods

The term under-served neighborhood has been widely used with respect to depository institutions' investment in the form of community reinvestment, but it is not their sole prerogative. This paper considers an under-served neighborhood to be a unit of analysis that has received less investment per housing unit than the average of the local economy within the central city or into which the neighborhood is located. This definition assumes that the pool of competitive housing investment vehicles for a neighborhood includes all the residents and investors in local housing. There is a relationship between the attractive power of the jobs in a sub-city or neighborhood and the spillover effect on the residential submarket for shelter services. In this paper, the submarket niche for housing segments according to the amount of residential capital invested per housing unit is studied.

To quantify the level of the households' lack of reinvestment and access to rental shelter, several different strategies utilizing property tax and mortgage delinquency initiated foreclosure market indicators are explored. These recycling market signals may reveal the capacity of the existing stock of rental shelter to maintain and preserve in terms of both physical condition and relevance in future years.

7.2.1. Defining Under-Served Areas

There are a number of ways to define underserved areas: geographic, demographic, or socioeconomic. From 1975 to 1980, the Title X program financed about 900 businesses across primarily rural areas, which resulted in a significant amount of private investment. The typical Title X assisted business was in a central city "distressed" area; therefore, Title X's results related to businesses in central cities. The CDBG program consists primarily of eight housing programs, although it also includes some economic development programs. The latest reports state: "These are generally locations in which financial institutions are not competing aggressively for a loan; brick-and-mortar investment is declining, and where many of the signs of decay associated with urban disinvestment are present. Further, there is reason to question whether our economy, as it functions presently, can revitalize these neighborhoods.

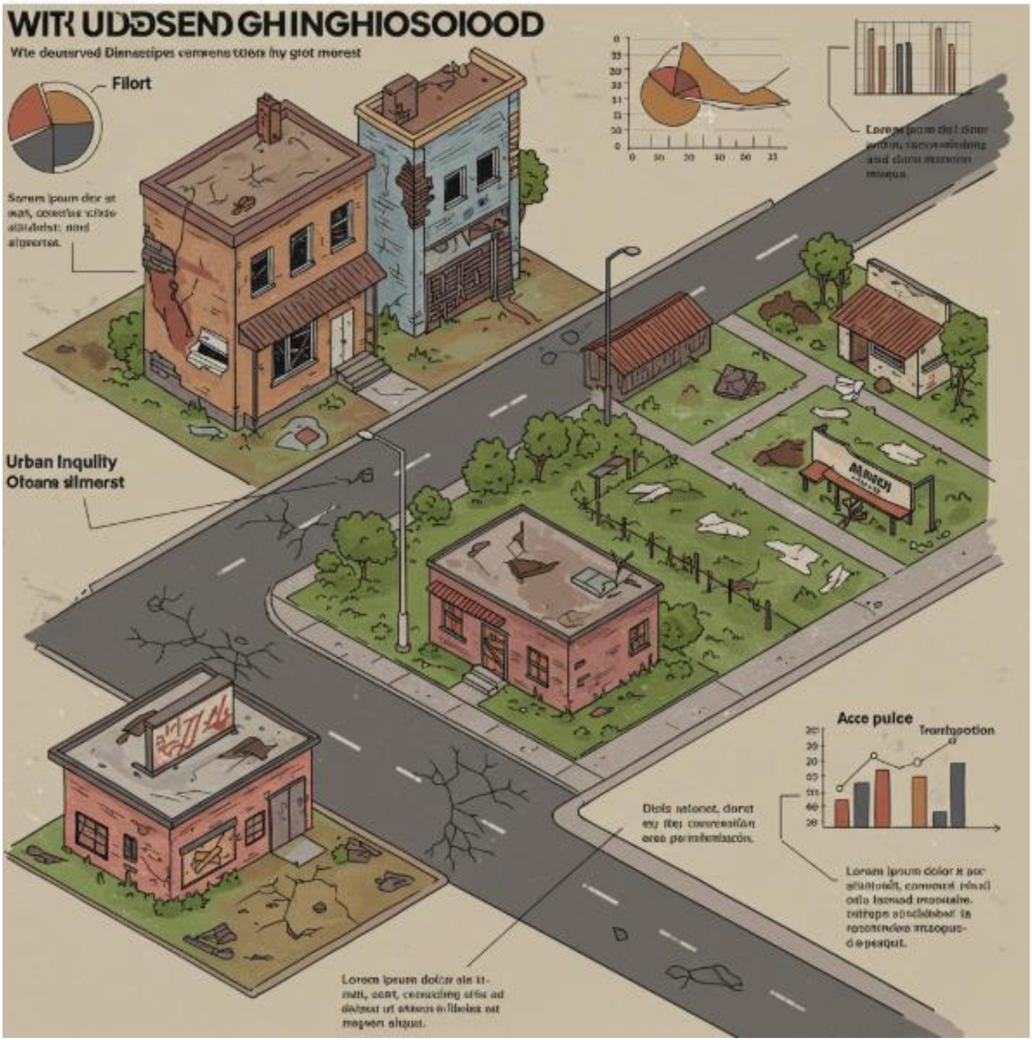

Fig 7 . 1 : Under-Served Neighborhood: Indicators of Housing Disinvestment and Urban Inequality

The report goes on to note that these areas lack access to credit, have aging infrastructure, have high unemployment rates, and have declining taxable capacity. Other characteristics of these areas include the out-migration of "natural leaders," over-reliance on human services, a lack of access to services, and the presence of a relatively large amount of "consuming" land. A recent study includes "distress indicators" for the years 1975 and 1977 for central cities, older mature suburbs, and older, less dense suburbs. Their indicators include the city-suburban income differential, the city's average family income relative to the poverty level, the city's unemployment rate, the city's crime rate, and the city's student-teacher ratios.

7.2.2. Historical Context of Economic Disparities

Organized urban intervention began in the 19th century industrial city as a preventative response to the negative social consequences of the emerging capitalist economic system. Driven by an improving economic climate and favorable social and political influences, there was a rapid period of city revitalization in urban quarters vacated by the prosperous. Soon, however, pro-business forces intervened to replace pro-humanitarian forces in the city. Urban intervention measures increasingly became welfare devices designed by the optimistic successful to help the pessimistic castoffs adjust to their plight. While the entrepreneurs reaped the comprehensive benefits from urban resonance, the remaining residents were faced with the building and code enforcement measures. These secondary measures served a public purpose, occasionally enabling an area to recover, but were too fragmentary in effect to reverse or even arrest the overall decay of an area that could stem from a weak local economic base.

Public and private efforts aimed at the improvement of city slums became less difficult with the Low-Rent Housing Act of 1937: subsidized construction of new housing for the poor. The forces that produced city decay, however, were more systemic than sectoral, having a positive rather than negative political linkage with the system at large. By 1950, and after a brief burst of excited activity due to the favorable world political climate, the federal government had already begun to withdraw from public housing, sequestering the poor into federally guaranteed zones of urban degradation. From 1944 to the present, city decay was compounded by the fact that the federal government was actively contributing to the destruction of the traditional city; federally insured mortgage money has been a main force behind suburban expansion. Federal transportation funds and highway location planning linked central commercial districts and many older residential areas. Public transportation and its essential corollary, freedom to choose where we want to live, have been minimized.

7.3. Role of Economic Incentives

Economic incentives have been at the center of recent policies for encouraging development in our inner cities. The role of government, both federal and local, has been to provide incentives in the form of preferential tax treatment and subsidized loans for both residential and business investments. This review evaluates current government efforts on public sector finance and their ability to stimulate private capital markets. The description of current and proposed government programs is organized around a set of incentives tailored to the needs of revitalization and compatible with private sector structure and function.

Current government programs operate in a variety of markets and support a variety of neighborhood improvement activities. The largest programs, modeled on prior government efforts to use economic incentives for development, are the tax-favored programs: Urban Renewal and Model Cities. As direct assistance, these programs provide finance and rarely support services. While important in aggregate amounts of investment and spending, these programs do little to create effective linkages between neighborhoods and central cities. Economic development benefits are foregone because the projects lack catalytic abilities.

7.3.1. Types of Economic Incentives

Today, federal, state, and many local governments offer many types of incentives to help businesses and developers revitalize urban neighborhoods. These incentives reduce costs associated with investments, may increase expected profits or reduce investment risk, or may facilitate the organization and assembly of investments. Not only can these incentives have a beneficial impact on project economics, they also can signal to other potential investors and market participants that the community will support new private investments in the area. Typically, these programs provide grants, loans, and lines of credit; interest write-downs; tax-exempt, below-market, or subordinated debt; and loan guarantees to projects; and equity investments in the form of participating debt, subordinated loans, or venture capital by specialized local, state, or federal development or banking agencies.

Additionally, there are significant tax benefits and cost savings incentives, such as property tax abatements, tax increment financing, and various other real estate and investment-related tax programs. States, localities, or specialized local development corporations are authorized to both create and sell to investors the tax credits generated by various state and federal tax programs. Each of these incentives seeks to reduce the taxes and development costs associated with investing and to help bridge the gaps resulting from the economic structure of projects in underserved urban areas.

7.3.2. Impact of Tax Credits

Tax credits have a big role in the leveraging process. I don't want to understate the importance of grants and equity. But we feel that the power of a tax credit is really quite phenomenal. It's almost magical that one can pick up something as specialized as the Federal Investment Tax Credit for facilities, or something as obviously narrow as the Higgin's-Bimstein Tax Credit for housing, and suddenly one has converted credits into capital. And I don't think that there's any way that one can overstate the importance of that process. It seems to be critical. It's working according to the way tax policy incentives should work. Certainly, the history of tax credit incentives for investment is one to be reviewed, and currently we're far from a complete agreement on it. It seems to us that the importance of tax credits in terms of reducing the demand for public grants and equity in many cases is really what has allowed tax credits to become the principal source of leveraging subsidy capability for many investors.

But tax credits through the leveraging process are important in other ways, and one sees them encouraging other societal policies that go beyond whether I can make a capital expenditure. Presumably, the goals of tax policy extend to syndication and placement advantages, risks inherent in the project, the elements of risk that are diversified among a nationwide group of investor owners of the project or the company, and perhaps encouraging a listing in the public capital market and other longer-term management or financial arrangements.

7.3.3. Grants and Subsidies

A final financial strategy for community revitalization is one that transcends both government intervention and private philanthropy: the provision of money to community organizations with an expectation that it will be spent wisely. American trust in community organizations—a set of institutions that are capable of operating independently of government—has not been systematically studied. But in a sense, the addicted gambler's trust is a form of generalized faith. Organized religion and agents—authors of performance agreements—also suggest a level of trust in local school leadership and, in some cases, states and cities have experimented with transplanting some aspects of centralized bureaucracies to autonomous franchises for the direct provision of community services. However, America has never cultivated a tradition of local organizational self-government for its neighborhoods. Our institutional vacuum requires the centralized determination of local service delivery objectives if there are no locally responsive providers capable of setting priorities in light of the specific needs.

For several reasons, though, the number of tasks that can be delegated from Washington or state governments to local institutions is quite limited. Even if receiver-specific feedback and performance incentives are too costly to construct in many direct service settings, that is not necessarily true in neighborhood building. But the fact that the neighborhood is not an institution to which money can be profitably delegated does not imply that money cannot play a role in encouraging desired local initiatives. A final reason for considering neighborhood grants is the long-run fiscal advantage this form of subsidy may offer. It may, for example, be most equitable and efficient in the long run for communities with especially slow rates of employment growth—the very communities that are the primary intended beneficiaries of these programs.

7.4. Investment Strategies

This section describes some of the generic investment strategies that can be structured to liberate the potential of underserved neighborhoods. In the following section, these strategies are illustrated by sketching alternative approaches toward capturing the investment market opportunity presented by the three primary consumer education needs in poor areas serving the targeted neighborhoods. The three investment opportunities may be characterized according to their orientation toward private versus public education or targeted toward different age levels. Early childhood education and caregiver development services may be the greatest relative social investment opportunities, especially in low-income neighborhoods with maximum service impact. The financial investment opportunity represented by education and caregiver development services appears to be attractive, whether the service is privately or publicly oriented. Alternatively, services oriented toward the primary education level seem to represent the greatest relative education opportunity compared with the supply of similar private education services in middle-income markets. However, relative to private investment opportunities in less severe service impact areas, the primary education market in maximum impact areas seems less attractive.

It is important for public policy officials and the few potential private and public investors interested in solving the deteriorating problems of urban neighborhoods to consider how following the paths of the discouraged may provide new directions for solving the problems in conventional, but perhaps innovative, ways. Below, we suggest four promising strategies for serving education and its directly affected service markets, characterizing their respective investments relevant in both public and private sectors for capturing the largely unmet potential of high-quality education service opportunities available in low-income areas. They involve misallocations of anomalously high collective budget-share based funding or of private outlay funds for education and caregiver development services tailored to local neighborhood needs. As it turns out, these four alternative strategies involve a blend of public and/or mandated private remediation programs specifically designed to strengthen local competitiveness. Their narrowed focus allows maximum reliance upon local delivery systems; conversely, this approach can minimize expensive origination problems.

The final section of the paper returns to the topic of private investment opportunities in neighborhoods characterized by relatively affordable and optimal education and child development services. The great affordability of education services suggests strong underlying demand, and hence great relative education investment opportunity for services teaching generic education skills and values. Analysis of these and related issues, especially exploratory empirical or experimental studies, will likely enhance understanding of education investment opportunities that can be employed to sustain neighborhood competition both with the safe havens that are draining them and with the larger, more inaccessible education markets that have traditionally offered superior service and lifestyle options for the dominant population. The unusual profitability of poorly marketed and perhaps even inconsistently delivered high-quality education investment opportunities available to residents of lower-income neighborhoods suggests an important alternative solution approach to local contractual shortcomings. This paper elaborates that solution approach, focusing on how two institutional counterparts of collective purchasing might be coupled with the potential favorable externalities of private investing.

7.4.1. Public-Private Partnerships

The major potential for solving many of the problems lies in public-private partnerships. Execution of a theory to attract private investment in disinvestment areas can only be achieved by public-private joint ventures. This approach benefits both the communities and the retail and social firms drawn to the areas. Despite differences in location, size, and social and economic problems, the studies described reveal a surprising congruence of thinking among the four city centers. The explanations are found in rational economic theories, and empirical evidence from all across the United States supports these theories. Essentially, public-private partnerships grow out of investor welfare into community welfare as neighborhood and city center problems become more intertwined. The extent to which public-private partnerships can function successfully depends on the conditions for successful partnerships: a public commitment to center revitalization, real public leadership, goodwill, and mutual benefit. Success depends on partnerships that are consistent with the city or neighborhood problem, that are feasible within the framework of organizing, recruiting, and funding social enterprises, that are evaluated internally and externally to develop performance-based assessment measures, and that recognize property owner paths to profits. The two major advantages of both public-private partnerships and business district organizations are: they are legal fictions, and in many cases, the assets of the organization can either be great benefits to the participants or can be held by others. Their major limitations are the same: they are voluntary organizations and the more undefined, the more difficult it is to make individuals participate in voluntary organizations. Also, they can effectively cut off success if they are not honest brokers if their only purpose in life is the generation of property tax revenue for the underwriting of public services that will not benefit other members of the community. More importantly, these two liabilities are related. Usually, the organization's mission is to perform an information function to the city and to perform a regulatory function. When successful, it will be dissolved at some future time, much like a nursery school fulfills its mission when children become school age.

7.4.2. Community Investment Funds

Community investment funds (CIFs) are financial institutions that take savings from one part of the community, including religious organizations, universities, and labor unions, and make loans to or equity investments in businesses, nonprofit organizations, and individuals with low or moderate income in an adjoining area. The goal of community investment funds is to recycle local capital, mobilizing resources from religious, labor, and educational organizations to foster economic growth in local low-income neighborhoods. In 1989, there were about twenty-two CIFs in the country, some dating back to the 1960s. Including the New York and Chicago deposits, these CIFs had about $400 million of assets at that time.

For legal and regulatory reasons, current CIFs must be organized as credit unions or thrifts. Because the expansion of savings accounts by a CIF poses the risk of federal regulatory action, the community investment lending activities of a CIF need to be separated from its thrift functions. Long-standing CIFs have satisfied these requirements for a long time by splitting themselves into Semi-Autonomous Managed Areas (SAMAs). In some of these, credit unions or thrifts collect savings from local institutions, while in others, community development financial institutions, community development corporations, and certain other nonprofits in the underserved neighborhoods apply for and receive community investment loans. A report examined the legal structure, thrift management, regulatory relationship, and record of the then-existing CIFs. This paper updates the information presented in the report on the few CIFs that have been organized since the report was written.

7.4.3. Crowdfunding for Neighborhood Development

Crowdfunding is another potential tool for community development. It has provided a detailed explanation of the social dynamics of a mixed-income neighborhood and describes how the dynamics of social ties, norms, and social controls can lead to both positive and negative behavioral consequences. Specifically, norms regarding mutual assistance become stronger in a mixed-income neighborhood, but feelings of exclusion are also likely. Evidence shows that mixed-income neighborhoods are innovative in terms of the development of local rules. This same sense of local rule-making has led to the innovative use of community investment, such as through community development banks and other institutions. These alternative financial institutions are formed by a group of individuals with a common attitude and are durable, but like residential decisions, the choice is based on attraction to or repulsion from a neighborhood.

One of the first institutions to use a website to raise funds for its community development work. Individuals who visit the website are asked to consider contributing between $1 and $100 to help provide capital to fund the development of affordable housing and community facilities in distressed communities. The website even includes a ranking of the law school among other participating law schools. Given this neat little twist in the tool, it is no wonder that since 1996, more than 3,000 people from more than 150 law schools have contributed to the program. Other programs have found that tax-exempt financing can be used for neighborhood transactions if charitable contribution funds are set aside on a first-come basis so that they are unlikely to be used for any other purpose.

Fig 7 . 2 : Crowdfunding for Neighborhood Development

7.5. Case Studies

Case studies form the heart of this handbook, making the connection between the theoretical fundamentals of economic restructuring and the concrete application of those ideas in practice. The guidelines for community action that are recommended in this handbook are deduced from our interpretations of the experiences of community development efforts in a number of cities throughout the United States. Our research approach was to interview many development professionals and additional community activists to obtain their general observations on the challenges of working in distressed neighborhoods. We then supplemented that information through site visits to a diverse collection of cities. The case studies in this handbook reflect in large measure the activities and the advice of the hundreds of men and women with whom we have talked and worked over the past several years.

The quality of the industrial sector, and the educational, administrative, and cultural activities associated with it, determine the nature of the opportunities open to citizens of a particular city (Malempati, 2022; Challa, 2024; Nuka, 2022). Where these opportunities for gainful and satisfying employment are inadequate for what might be termed a critical mass of citizens, the result can be fatal for a city. The familiar downward fiscal spiral can be traced to problems of the neighborhood created initially by economic weakness at the metropolitan level. Central city fiscal difficulties imply inadequate services and conditions in those neighborhoods on the margin. These failing public services, plus the absence of new investment, reinforce the negative image of the neighborhood, turning away people with the resources and the capacity to solve their own problems.

7.5.1. Successful Revitalization Projects

Over the past fifteen years, various cities could point to many successful revitalization projects. It is no coincidence that a design school chose a dozen urban communities that illustrated a comprehensive approach to urban redesign, designating them as case studies. While these local success stories have been contributed by different local communities and states, many of them have the common thread of having been funded in part due to assistance from, and influence of local initiatives or their affiliates. It is worth noting that these initiatives themselves take pains to invest in those projects that demonstrate self-sustaining – not just operationally supportive – economic characteristics. At least nine of the twelve buildings that were singled out for praise appear to have been part of an initiative that marries new urban design thinking to tried principles of community development.

7.5.2. Lessons from Failed Initiatives

The history of urban policy includes many failed initiatives that sought to achieve revitalization, housing affordability and preservation, and reduced poverty. Policy experiences are rich sources of both successes and failures as they can provide insights into investment behavior when policy incentives have worked and, just as importantly, when they have failed. We don't know enough about why past policies in general, and federal policy in particular, have been unable to sustain the economic health of LMI neighborhoods. The adverse impact of large-scale investment finance foreclosures due to the high cost of the debt may have been underestimated in past evaluations. The political acceptability and feasibility of financial markets in LMI neighborhoods, a central contradiction of federal policy, may have been ignored.

Policy is only infrequently concerned with real rather than nominal values or capital formation of urban properties. Thus, policy choice has tended to focus on subsidies as a means to support real property. Despite the extent of federal subsidy to promote housing and real economic change, it appears that the productive investment packages have been relatively limited. There has been no widely accepted housing policy model to guide the investment decision. Although the nation's housing stock is depreciating, replacement housing has been in high-cost suburban areas. The experience of state assistance management commissions suggests a common pattern of factors that contributed to investment failures and areas in which changes might enhance investment success. This experience also suggests that the investment failure was the outcome of a complex process for structuring financial incentives and that investment was not likely to occur without adequate subsidy, favorable investment horizons, and professional management. Since all finance sources, particularly housing, investment tax credits, and federal grants, have experienced a significant erosion of real value over the past 15 years, identifying the characteristics of failed investments and developing feasible policy alternatives for the future has substantial implications.

7.6. Challenges in Revitalization Efforts

The selection of a proper investment strategy for a particular project is contingent on a detailed analysis of the specific economic problems and opportunities of the revitalization project area. For example, the initiation of residential transition requires the in-migration of certain population groups. However, the mere existence of a spiraling circle from one block to the next, if it could be documented, may not provide guidance if the process actually provides profit opportunities. On the other hand, if such a profitable process could be demonstrated empirically to eliminate a particular income class, policies could be developed to offset these effects. We have next to nothing beyond intuition that cancels these effects at present.

In the absence of policies designed to achieve socially preferred, although not necessarily highly profitable outcomes in revitalization projects, the available evidence seems to be so conflicting and diverse as to be nearly irrelevant. To indicate the lack of prior tax impact evaluation research, it is only necessary to point out that there have not been any general tax incidence studies or evaluations of tax structure alternatives in residential areas since 1921. Only a handful of shopping centers and downtown areas have been investigated. As should be apparent from the evidence presented, our conclusions are disturbing and clearly call for further research.

7.6.1. Community Resistance

The older and much less profitable, but quiet, attractive, and stable part of the neighborhood still filled many important social and personal needs (Chava, 2023; Komaragiri, 2024; Chakilam, 2022). Its value could even rise because of the quality of life of the higher-income encroachers who loved the neighborhood so much they wanted to pay a premium to live there. Persistent, low-income resisters were in the way of profits, moving out of traditional neighborhood community spaces; places they could not and did not wish to share. Relocation complexity, with higher than a fair market cost of relocating lower-income neighborhood resisters, made far less attractive buying options related to efficient conversion of older, multiservice supportive housing complexes. Premiums from refusal to sell could greatly affect required investment returns from expanding strip gentrification because resale premiums were the only capital gains profits with efficient means of self-extraction.

Professional upgrading of a neighborhood often included purchase transform-and-evict techniques. Acquiring, transforming, and then rearranging a collection of modest properties increased their attractiveness and value individually and collectively as the potential site for replacement assemblage. Intentions to assure social inefficiency became especially clear in the preservation aspects of competing special interest illegal homeowner refusal blocks that tried to free-ride each other without payment for their value contributions. Each informal rent severance zone clearly demonstrated the most ethical or moral share of avoidance. There exists a near total absence of economically sustained legal protection from harassment rights for non-owner resisters.

7.6.2. Gentrification Concerns

Rising housing costs, displacement of long-standing homeowners, culture shock, scarcity of local jobs for long-time residents, and other problems associated with economic development have led to the stigmatization of the process by significant numbers of neighborhoods (Chava, 2023; Komaragiri, 2024; Chakilam, 2022). This resistance is fostering anti-growth attitudes and actions by cities and anti-displacement strategies by existing residents, which slow urban recovery. In response, cities have developed a number of strategies to conserve or effectively deploy existing resources to ensure that assistance goes primarily to long-term residents rather than newcomers and to ensure that the social composition of the neighborhood remains relatively stable. Economic development strategies address such areas as increasing the number of available low- and moderate-income housing units, addressing employment issues of current residents, and fostering pride and heritage among existing neighborhood residents. City housing agencies and developers report moving investor tax credits from more active real estate markets to their target area because outside capital will finance some of the costs of the existing building on the hopes that the tax credits can make the target area more profitable than a riskier area that would require capital to fix up the existing unit.

7.6.3. Sustainability Issues

Significant disorder in these markets is the result of a lack of sustainability. High percentages of renter households with above income levels create the reality that for many households, rental is subsidized either through project-based subsidies, tenants' share of market rental, or by necessity as a result of market dislocations which might result from redevelopment of an area. Households requiring project-based subsidies are at one end of the affordability scale, households renting at the market are subsidized through below-market mortgage terms, while households requiring project-based subsidies are in the middle. From a sustainability standpoint, the policy issue is how to move to a market-based neighborhood where as many households as possible are self-sufficient and do not require financial mechanisms to support their rental housing or housing location.

Moving to a self-sufficient market employing the broken housing markets model requires reversing the cycle of disinvestment. The key premise is affordable homeownership; to bring individuals into a neighborhood, who in turn, become the providers of stability. Urban markets abandoned during the suburban era require a comprehensive revitalization strategy incorporating households at a range of income levels. The first focus is low-income homeownership coordinating house renovation, local job creation, and economic justice with homeownership linkage mechanisms. As markets respond through new investment and economic development, rental will move to the self-sufficient level. This buys time to support and protect renters, many of whom are chosen to be in these locations because they are the poorest. Policy may take the position that housing of the poorest families who are not subject to the direct forces of economic growth be subsidized.

7.7. Policy Recommendations

The challenge of economic revitalization in many of our urban areas is to generate private sector interest and involvement. If we are to succeed, there must be a number of reforms at the local, state, and federal levels. These reforms fall into four primary categories: economic incentives, enabling regulation, promotion and marketing, and administrative and institutional support. Recommending specific programs to improve the economic well-being of city residents, we follow these categories. Each type of reform is necessary to coordinate a range of investment strategies intended to revitalize underserved neighborhoods.

The development of economic incentives for private development of city neighborhoods—the creation of conditions that are conducive to entrepreneurs, investors, and developers—is the basis of any successful economic development strategy. Furthermore, initiatives to introduce pro forma flexibility, lower development costs, incentivize business and housing real estate development, and foster job growth are not unique to areas with unrealized potential. All concerns regarding the inequities of subsidies to spur private direct investment in the rental housing sector are easily addressed by targeting subsidies to real estate that will serve middle-income and lower-income households. The tough choices are either paying the public cost associated with community development or accepting that disinvestment will continue.

7.7.1. Enhancing Incentives for Developers

By developing a menu of alternative public and private approaches, we have considered the structural context that contains the reasons why private development fails or chooses other locations than underserved neighborhoods. They apply conventional market motivational theory to correct these structural problems, particularly the financial ones, faced by the private sector developer in underserved neighborhoods. The approaches, focused on aiding the developer to achieve his profit goal, range from outright gift-like incentives, through special case freeze type inducements, to grant-like aids. The inducements are delivered through three principal vehicles: the government unit below the federal level, the federal government, and the extended investment community institutions, composed of what were identified as the social welfare-generating business corporations of the private sector.

Since we have identified and profiled a range of tangible internal problems within the developer's context, often unique to the underserved environment, which severely inhibits the establishment of retail in underserved areas, the public policy role suggested is to return to structure enhancement as a means of effectuating private market/client strategies. A priority role is therefore suggested for the local government, whose incremental tax revenue from retail renovation typically covers part of the cost of public investments, in coordinating the potential public actions that would call to bear all available enhancement facets toward resolving the problem. The role is viewed as proactive, dependent upon serious and constructive participation from a series of regional and federal institutions within a timely process framework, designed to make it easier for the local neighborhood environment to generate underserved area retail by using the available private investment resources.

7.7.2. Strengthening Community Engagement

The single most important factor encouraging success is native entrenchment. If members of a community own their community, they will take care of it and keep it as precious as a pair of common buttons. In areas where residents feel they have little to lose, it's common for theft and destruction of premises to take place, while in those communities where direct community ownership exists, such vandalism is practically unknown. This ownership principle encompasses more than individuals owning their own homes; quite definitely, it includes the case for improved services, improved private services, higher standards of discipline, and higher standards of behavior. There is a world of difference between walking around New York's Central Park at night and walking around New York's Grand Central Terminal. In the first place, we know that there's a low probability of being mugged, and in the second, we know there's a high probability of getting mugged. Why? Because one is privately protected, the other is publicly unprotected.

On the other hand, providing money to community groups to make them stronger doesn't seem to work either. Studies of the impact of federal poverty money allocations provide no systematic evidence that these funds have strengthened or even affected at all the ability of community groups to get a share of local community services or education funds. Apparently, increasing the ability of the community to resist or obstruct the interests of others is not the relevant dimension on which superior metropolitan areas are distinguished. The emphasized principle of relative responsibility is intended to engender principles underlying longer-term causes of welfare, work, and home life and the way in which money and wealth in contemporary society destroy it, both for individuals directly affected and for society as a whole. The test is whether it favors or hampers the growth of personal freedom.

Fig 7 . 3 : Direct Economic Development to Places and People in Need

7.7.3. Long-term Planning Strategies

Ultimately, the credibility of any planning strategy for revitalizing underserved areas at local, city, or metropolitan scale can be established only if there is sufficient commitment from the public and private sectors to undertake a holistic approach within an agreed timeframe. All other initiatives in the urban policy package can have only a temporary, patchwork, political hold, and vested interest impact at best unless there is long-term commitment to engage holistically and comprehensively with the problems of the neighborhood. Such commitment, however, can be established only if there is confidence about the financial viability of the investment that developers, businesses, and residents are prepared to make.

Capital enhancement and entrepreneurial development endowments to community organizations are an example of a community-building investment strategy to provide long-term planning for strong communities in inner-city neighborhoods. The initiative should be a 25-year initiative whose components mature on approximately 5-year cycles. It is large enough to make a substantial difference and is politically feasible, implemented in steps that are small enough to have a chance of being successful. But the plan is aggressive enough to help us establish goals. By recognizing the fundamental relationship between private behavior and public policy, it can make a positive contribution to policy improvements as well.

7.8. Conclusion

This paper has queried whether the provision of economic incentives for private developers within selected inner-city areas can alleviate some of the constraints and uncertainty associated with urban investment. At a minimum, it documents the magnitude of taxes and other charges that currently burden the developer. More positively, it points to other ways in which the government might work to reduce the perceived risks (including questions of timing and size) of producing housing in these targeted areas. In this way, the local government can encourage greater private investment in buildings, thus revitalizing these areas in a way that will hopefully create multiple spill-over benefits for the entire community. What is, perhaps, most significant about the suggested strategy is that it is not unique or confined simply to the experience. Instead, the incentives identified here are, for the most part, variations on a theme that has a certain widespread appeal throughout the country. They are, in short, replicable, especially as the need for a better understanding of the relationships between individual markets and geographic investment patterns becomes more generally recognized.

7.8.1. Final Thoughts and Future Directions

This paper has been about the use of incentives as tools for private market investment in neighborhoods where markets have failed. We have addressed three principal areas in the study. In Part I, we develop a conceptual framework to identify neighborhood market emergencies and appropriate incentive strategies that can reduce financial barriers to private market investment. Specifically, we have defined the characteristic features of a "failing" market and have explored three general strategy approaches to facilitate neighborhood market adjustments. In Part II, we present the results of a more detailed neighborhood case study specific to a location, where each failing market is more fully described and potential areas of strategic intervention have been identified. We also outline how such strategies may affect the fabric of a neighborhood's racial and income composition. Finally, in Part III, we discuss implementation and some of the more controversial issues associated with incentive use and conclude with some general recommendations about investment incentives in lower-income neighborhoods.

Our study shows that conventional financial analysis would indicate little attraction toward building moderate and low-income housing in many of the case study neighborhoods at the same time that existing moderate-income homeowners may wish to increase their private home assets. Our belief, however, is that a considerable number of local residents would --- if they understood the opportunity and had access to superior financing terms that reflect a better social return on local social investment inputs. The question, therefore, is whether we are willing to subsidize in any form the construction of housing that could provide a larger private return on social investment, at the same time that such new housing could result in significant neighborhood and benefit spillover gains.

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