The Role of Construction, Housing, and Real Estate in Inner City Economic Development:

Towards a National Research Agenda

Professor Michael E. Porter
Harvard Business School
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Philadelphia, PA
The Construction, Housing, and Real Estate Cluster

- The Construction, Housing, and Real Estate cluster is a major component of inner city economies

- Because of the multiple impacts of the cluster, it may have the largest impact of any cluster on inner city economic development

- ICIC is undertaking a long-term research agenda on the cluster

- Feedback from Summit participants will help us shape the agenda
Cluster Activity

- Jobs
- Wages
- Self-employment
- Entrepreneurship

Cluster Outputs

- Housing
- Commercial Facilities
- Industrial Facilities
- Infrastructure

The Construction, Housing and Real Estate cluster generates substantial employment at good wages for a wide range of skill levels. Self-employment and entrepreneurship is high and growing.

Outputs of the Construction, Housing, and Real Estate cluster are essential to quality of life in inner cities, the competitiveness of inner city economies, and success in related clusters.
The Competitive Advantages of Inner Cities

Draw on Cluster Output

**Strategic location**
- Requires good transportation infrastructure and the availability of commercial and industrial space

**Under-utilized workforce**
- Requires affordable housing and access to retailing

**Under-served demand (Retail and Services)**
- Grows with housing; requires quantity and quality retail development

**Linkage to regional growth clusters**
- Leverage presence of entertainment, tourism, health care, and educational institutions
Construction Output: Why Projects Matter

Some Examples

• Housing development supports the retail, entertainment, and hospitality clusters
  – Many inner cities have a “retail gap”; can housing development trigger retail investments?

• Lack of commercial and industrial space affects the growth of inner city firms
  – In surveys, 18% of IC100 firms mentioned availability of real estate as a competitive disadvantage
  – Of IC100 firms that have considered relocating out of the inner city, 21% were motivated by a lack of available land; another 10% were motivated by building conversion cost

• The condition of public infrastructure affects competitiveness
  – For example, IC100 firms in growing inner cities cited “access to transportation nodes” as a competitive advantage twice as often as IC100 firms in declining cities (21.4% versus 11.5%)
The poor performance of the market rate housing segment will exert a negative influence on the cluster, but there are major opportunities in the other parts of the cluster.

Source: Estimates from the U.S. Census Bureau (http://www.census.gov/const/C30/totsa.pdf)
The Economic Impact of Construction, Housing and Real Estate, 2005

<table>
<thead>
<tr>
<th></th>
<th>Top 100 Inner Cities</th>
<th>Rest of Region (MSA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Employees, 2005</td>
<td>746,600</td>
<td>6,762,900</td>
</tr>
<tr>
<td></td>
<td>#3 (of 67)</td>
<td>#3 (of 67)</td>
</tr>
<tr>
<td>Share of Employment, 2005</td>
<td>8.5%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Average Cluster Wage, 2005</td>
<td>$44,574</td>
<td>$43,613</td>
</tr>
<tr>
<td>Wage as % of Avg. US Wage 2005</td>
<td>122%</td>
<td>119%</td>
</tr>
<tr>
<td>Real Wage CAGR, 1998-2005</td>
<td>1.1%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Firm Size (employment / establishment), 2005</td>
<td>12.7</td>
<td>9.4</td>
</tr>
<tr>
<td>Firm Size Rank, 2005</td>
<td>#61 (of 67)</td>
<td>#62 (of 67)</td>
</tr>
</tbody>
</table>

Note: Average cluster wage is estimated based on US wage for each sub-cluster; and mix of sub-cluster jobs in IC and MSA.
Source: State of the Inner City Economies (SICE) database, ICIC Analysis
Why Do Projects Get Built?
Drivers of Construction in Inner Cities

- Population
- Land availability
- Permitting
- Time to market
- Financing
- Incentives
- Others?

What are the leverage points for increasing the number of inner city projects?
Population Growth and Residential Permits, Metropolitan Areas, 1998-2002

Permits as % of Housing Stock, 1998-2002

Average MSA Population Growth, 1998-2002

Population is a strong predictor of new residential construction at the MSA level

\[ y = 1.32x + 0.006 \]

\[ R^2 = 0.77 \]
Population and Growth in Regional Construction, Housing, and Real Estate Employment

Regional Cluster Employment CAGR, 1998-2005

Source: State of the Inner City Economies (SICE) database, ICIC.

\[ y = 1.86x + 0.0007 \]

\[ R^2 = 0.40 \]
Population and Growth in Inner City Construction, Housing and Real Estate Employment

Inner City Cluster Employment CAGR, 2000-2005

\[ y = 0.76x + 0.008 \]

\[ R^2 = 0.09 \]

Washington
Miami
Corpus Christi
Sacramento
Riverside
Boise City
Miami
Tucson
Phoenix
New Orleans
Dallas
Montgomery
Arlington, VA
Phoenix
Tucson
Milwaukee
Milwaukee
Omaha
Fort Wayne
Fort Wayne
Montgomery
Montgomery
Washington
Washington

\[ y = 0.76x + 0.008 \]

\[ R^2 = 0.09 \]
Between 2003 and 2006, Detroit permitted almost 3,800 new residential units despite losing 18,000 citizens and demolishing 7,300 units.
Drivers of Residential Construction in Detroit
Financing and Incentives

• Federal Programs
  – Federal brownfields tax credit programs (market-rate housing)
  – Federal Historic District Prevention Tax Credits: “Every rehab…uses them.”
  – Low Income Housing Tax Credit
  – New Markets Tax Credits

• State Programs
  – State brownfields tax credits (market-rate housing)
  – Neighborhood Enterprise Zones: State program that allows city property tax abatement for up to 12 years (property tax reductions generally 40-60%)
  – Renaissance Zones: collaborative effort between Detroit, Wayne County and Michigan to give tax incentives to residents and businesses

• Public-Private Partnerships
  – Partnerships between Detroit and Charter One Bank to provide $250M in low-interest loans to nonprofit housing developers
  – Public-private partnerships like the Detroit RiverFront Conservancy, whose co-chairs are from General Motors (a major riverfront developer) and city of Detroit

• City of Detroit Economic Development Initiatives
  – Housing development utilizing city money must have a retail component
  – Preference to city businesses located within Detroit in bidding processes (e.g., construction)

Which of these programs is most effective?
Housing investments were associated with increased retail availability in many low- and moderate-income neighborhoods.
Construction, Housing and Real Estate Cluster Activity

Direct Economic Impacts

- Attractive wages
- Large employment
- Stable and growing job base
- Widespread on-the-job training
- Low formal education requirements for many occupations
- High self-employment
- Significant opportunities for entrepreneurship
Change in Inner City Employment by Cluster
100 Largest Inner Cities, 1998-2005

### Growing
- Hospitality Establishments: 73,800
- Community & Civic Organizations: 60,900
- Education & Knowledge Creation: 56,200
- **Construction, Housing, Real Estate**: 54,600
- Business Services: 52,500
- Health Services: 37,000
- Entertainment: 31,200
- Education & Training: 20,600

### Declining
- Automotive: -21,500
- Metal Manufacturing: -29,000
- Processed Food: -29,800
- Industrial Products & Services: -40,500
- Apparel: -44,700
- Utilities: -61,900
- Commercial Services: -69,500

Construction, Housing, and Real Estate generated more jobs in the inner cities than all but three clusters between 1998 and 2005.
Growth in Construction, Housing and Real Estate Employment vs. Rest of the Economy

Source: State of the Inner City Economies (SICE) database, ICIC Analysis
Construction, Housing, and Real Estate
Cluster Wages, 2005

Architectural Services
Highway and Street Construction
Developers
Equipment Distribution and Wholesaling
Building Equipment Distribution
Final Construction
Real Estate Services
Construction Materials Wholesaling
General Contractors

CLUSTER AVERAGE $43,400

Concrete Products
Fabricated Metal Structures and Piping
Specialty Contractors
Primary Construction Materials
Subcontractors

ALL U.S. INDUSTRIES $36,675

Ceramic Tile
Construction Materials Retailing

Average Wage, U.S. Dollars, 2005

Source: State of the Inner City Economies (SICE) database, ICIC Analysis
Construction, Housing, and Real Estate Cluster
High Wages in Inner Cities Based on Regional Employment Mix

Source: State of the Inner City Economies (SICE) database, ICIC Analysis
Construction, Housing, and Real Estate Cluster

Estimated Wage Growth by Region, 1998-2005

Source: State of the Inner City Economies (SICE) database, ICIC
Construction, Housing and Real Estate Cluster
Educational Attainment, 25-44 Year Old Workers, 2004

% of Workers, 2004

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Cluster</th>
<th>Rest of Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>High School or Less</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>Some College</td>
<td>28%</td>
<td>29%</td>
</tr>
<tr>
<td>College or Higher</td>
<td>16%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics, ICIC Analysis
Construction, Housing and Real Estate Cluster
Education and Training Requirements, 2004

Share of Employment, 2004

- Short-term On-the-Job Training: 36%
- Moderate-term On-the-Job Training: 34%
- Long-term On-the-Job Training: 21%
- Work Experience: 20%
- Vocational or Associate's Degree: 8%
- Bachelor's Degree: 9%
- Advanced Degree: 7%

Source: Bureau of Labor Statistics, ICIC Analysis
Construction, Housing and Real Estate
Self-Employment

• The Construction, Housing, and Real Estate cluster accounted for 25% of total U.S. self-employment in 2005

• Self-employment in the cluster is growing 50% faster than employment at firms (2003-2005)

• Self-employment grew rapidly in the last industry downturn, and is likely to become more important

Source: U.S. Department of Census, ICIC analysis
Difference in Construction, Housing, and Real Estate Cluster Growth by MSA
83 Largest MSAs

Top 15 MSAs

- Miami-Fort Lauderdale-Miami Beach: 11%
- Bakersfield: 9%
- Riverside-San Bernardino-Ontario: 8%
- Sacramento--Arden-Arcade--Roseville: 8%
- Las Vegas-Paradise: 7%
- Anchorage: 7%
- Stockton: 7%
- Washington-Arlington-Alexandria: 6%
- Orlando: 6%
- Modesto: 6%
- Fresno: 6%
- Phoenix-Mesa-Scottsdale: 6%
- Jacksonville: 5%
- San Diego-Carlsbad-San Marcos: 5%
- Tampa-St. Petersburg-Clearwater, FL: 4%

Average = 3.0%

Source: State of the Inner City Economies (SICE) database, ICIC Analysis

Cleveland-Elyria-Mentor: -0.9%
Mobile: -1.0%
Baton Rouge: -1.3%
El Paso: -1.5%
Difference in Inner City Employment Growth in Construction, Housing, and Real Estate, 1998-2005

Top 15 IC
- Riverside 9%
- Anchorage 9%
- Corpus Christi 7%
- Anaheim 7%
- San Bernardino 6%
- San Diego 6%
- Stockton 5%
- Phoenix 5%
- Sacramento 5%
- Fresno 5%
- Madison 5%
- Orlando 4%
- Oakland 4%
- Milwaukee 4%
- Santa Ana 4%

Bottom 10 IC
- Atlanta -2%
- St. Petersburg -3%
- Mobile -3%
- Cincinnati -3%
- Minneapolis -3%
- Memphis -3%
- Fort Wayne -4%
- Omaha -4%
- Arlington VA -4%
- Spokane -4%

Average = 1.0%

Source: State of the Inner City Economies (SICE) database, ICIC Analysis
Inner City Share of the Regional Cluster Employment, 2005

IC Cluster Employment as % of MSA Cluster Employment, 2005

High IC Contribution
- El Paso, TX 46%
- Corpus Christi, TX 45%
- Tucson, AZ 35%
- Fresno, CA 30%
- Lubbock, TX 26%
- Spokane, WA 26%
- Shreveport, LA 25%
- Oklahoma City, OK 25%
- Montgomery, AL 25%

Low IC Contribution
- San Diego-Carlsbad 4%
- Madison, WI 4%
- Detroit-Warren-Livonia 4%
- Boise City-Nampa, ID 4%
- Miami-Fort Lauderdale 3%
- Washington-Arlington-Alexandria, DC-VA-MD 2%

Average = 9.9%

Inner city share of MSA cluster employment is 9.9% versus 12.4% for the rest of the economy

Source: State of the Inner City Economies (SICE) database, ICIC Analysis
Expanding Cluster Participation For Inner City Residents
Potential Levers

• Training

• Mentorship
  – e.g., Turner School of Construction Management for women/minority owned businesses (W/MBEs)

• Partnership
  – e.g., Developer-CDC partnerships

• Procurement practices

• Union initiatives

• Others?

Source: ICIC City Advisory Practice (CAP) memoranda; ICIC interviews
Growing Inner City Construction Firms

Brooklyn

In Brooklyn and throughout New York, there is a construction boom...

- Brooklyn construction firms are smaller than those elsewhere in NYC. Many struggle to grow to scale.

- In 2004, the Initiative for a Competitive Brooklyn (ICB) created a construction leadership group made up of women/minority owned businesses (W/MBEs), unions, large general contractors, financial institutions, and training institutions.

... identify opportunities to increase Brooklyn’s share of the growth

- Starting in 2004, a local community group utilized project labor agreements to increase opportunities for smaller minority-led firms and local workers.

- Since 2004, ICB, City Tech, and the Carpenters Union have run a pre-apprenticeship program to connect residents to new openings.

- Since 2004, ICB has doubled the number of Brooklyn firms participating in mentoring and technical assistance programs.

Source: Initiative for a Competitive Brooklyn; ICIC City Advisory Practice (CAP) documents
### Tapping the Inner City Workforce for Construction

**Los Angeles**

<table>
<thead>
<tr>
<th>Los Angeles unions are experiencing a skilled labor shortage...</th>
<th>...with new programs, unions are beginning to tap into the inner city workforce</th>
</tr>
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<tbody>
<tr>
<td>- Demand for construction workers in Los Angeles county equals the demand for computer specialists</td>
<td>- Starting in the 1990s, local unions started recruiting inner city youth and immigrants, including gang members; this effort has intensified</td>
</tr>
<tr>
<td>- Because the average construction worker is nearing retirement, future openings are expected to be twice those in the computer field</td>
<td>- Recently, a local group, the Community Coalition, has proposed creation of a “Construction Technology Academy,” to be housed in a South Central High School. The program would allow high school students to prepare for careers in construction while simultaneously preparing for college.</td>
</tr>
<tr>
<td>- Experts project a long-term labor shortages in the building trades</td>
<td></td>
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</table>

Source: Los Angeles Times, May 2007
ICIC Research Agenda

First Steps

- Develop data on inner city and central city housing, commercial/industrial, and infrastructure activity and stocks
  - Quality of assets has strong effect on inner city growth patterns; and on growth of inner cities versus the rest of their region

- Perform comparative case studies of inner cities with strong cluster growth
  - Local programs and institutions seem to be more important drivers than general economic conditions

- Examine housing-retail linkages in individual Boston neighborhoods, as well as in other cities (e.g., Atlanta, Cleveland)
  - Relationship between housing and retail is shaped by characteristics of the inner city (e.g., growing, declining)

- Examine the participation of inner city residents in the cluster as employees, managers and owners
FOR MORE INFORMATION

Please contact,

Teresa Lynch
SVP, Research
ICIC
727 Atlantic Avenue
Boston, Massachusetts 02111
tlynch@icic.org
617-292-2363

www.icic.org