2007 | Inner City Economic Forum Summit

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

## <u>Towards a National Research Agenda</u>

Professor Michael E. Porter
Harvard Business School

October 17, 2007
Philadelphia, PA

ICIC : Inner City Economic Forum

# 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

# Construction, Housing, and Real Estate Cluster

## Impacts

### 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

**Inner City**

### 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

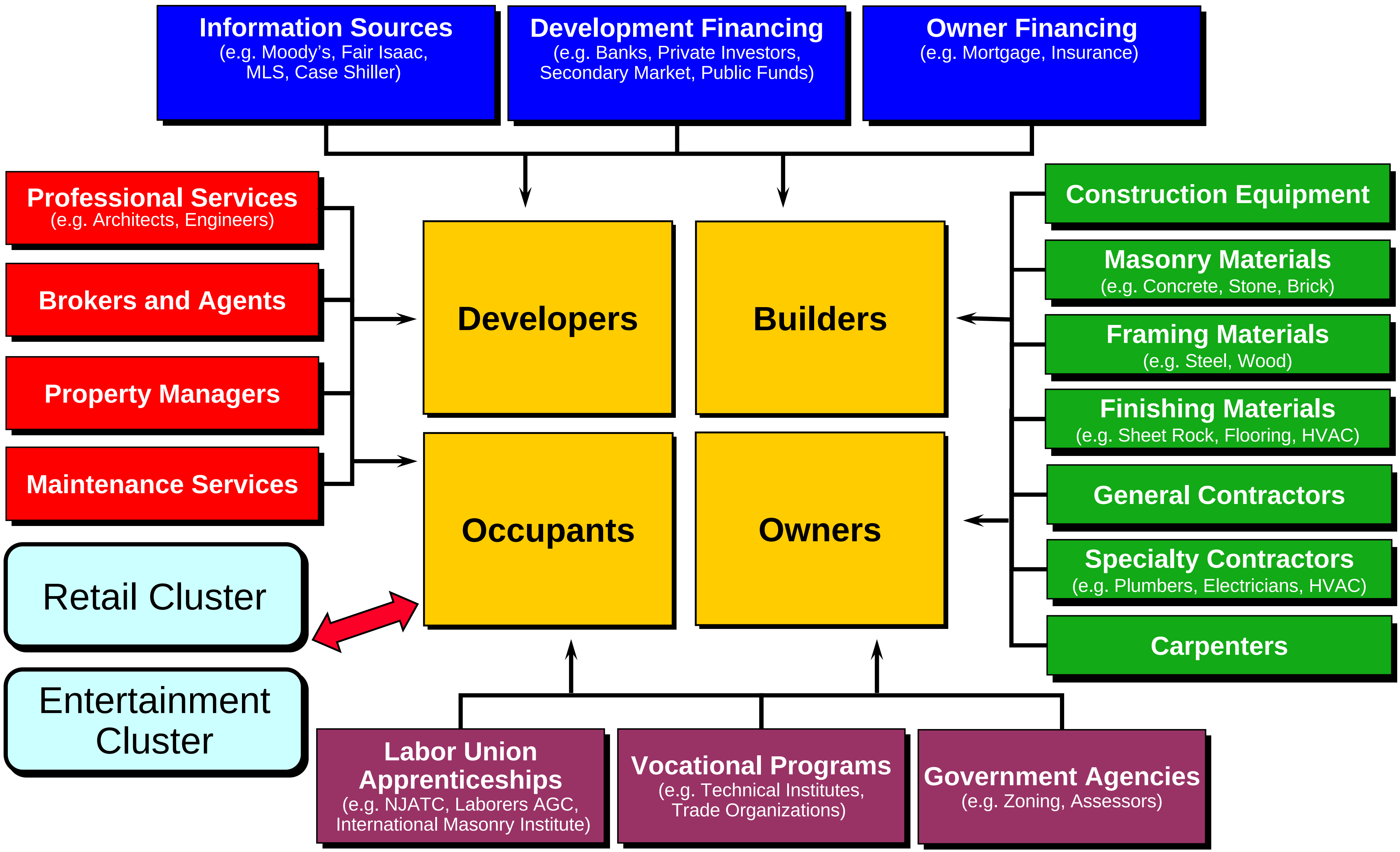
# Construction Output: Why Projects Matter

## 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%)

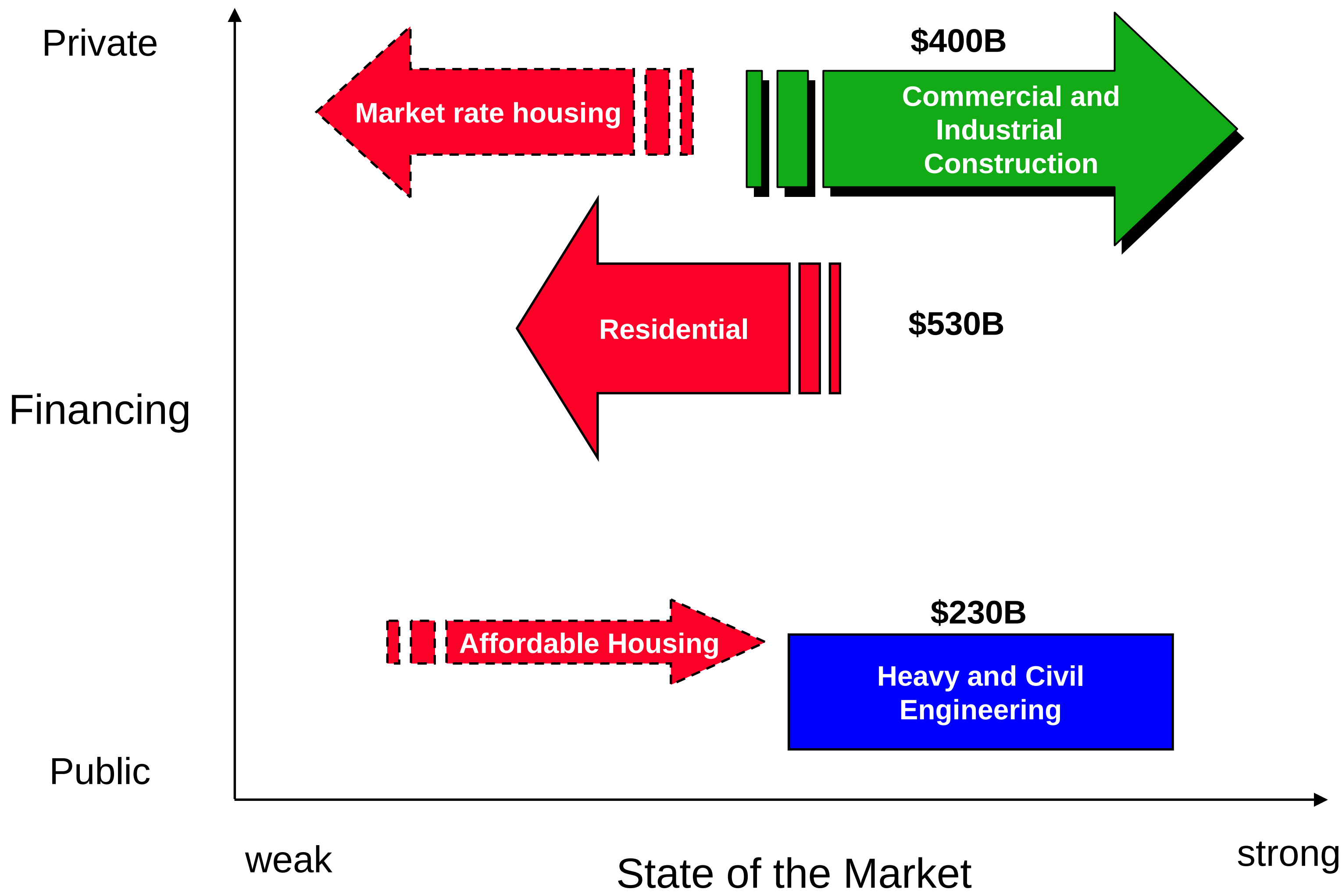
# Construction, Housing, and Real Estate Cluster

## Cluster Map




Source: ICIC

# Value of Construction by End Use, 2007




**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

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

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

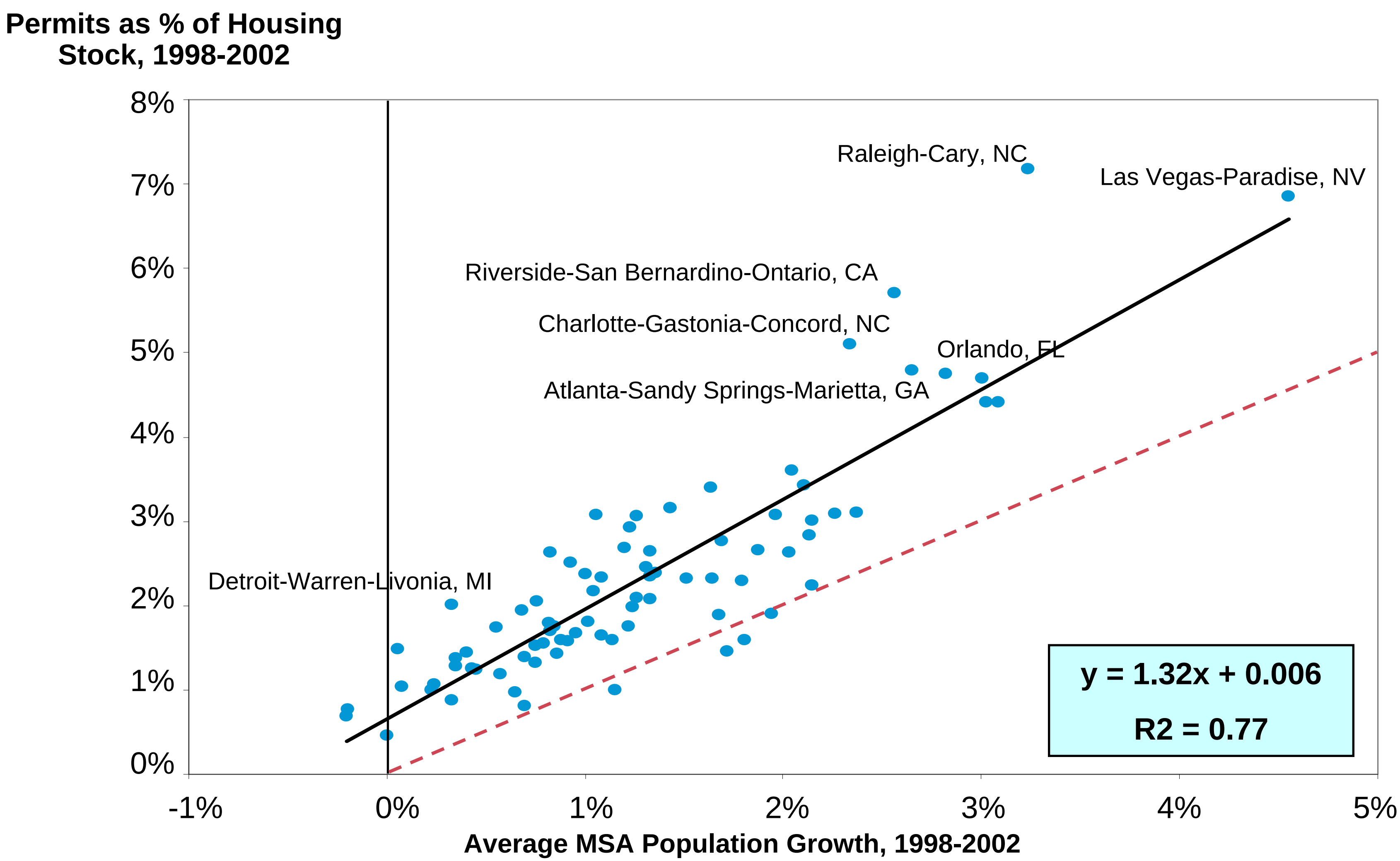
# Why Do Projects Get Built?

## Drivers of Construction in Inner Cities

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

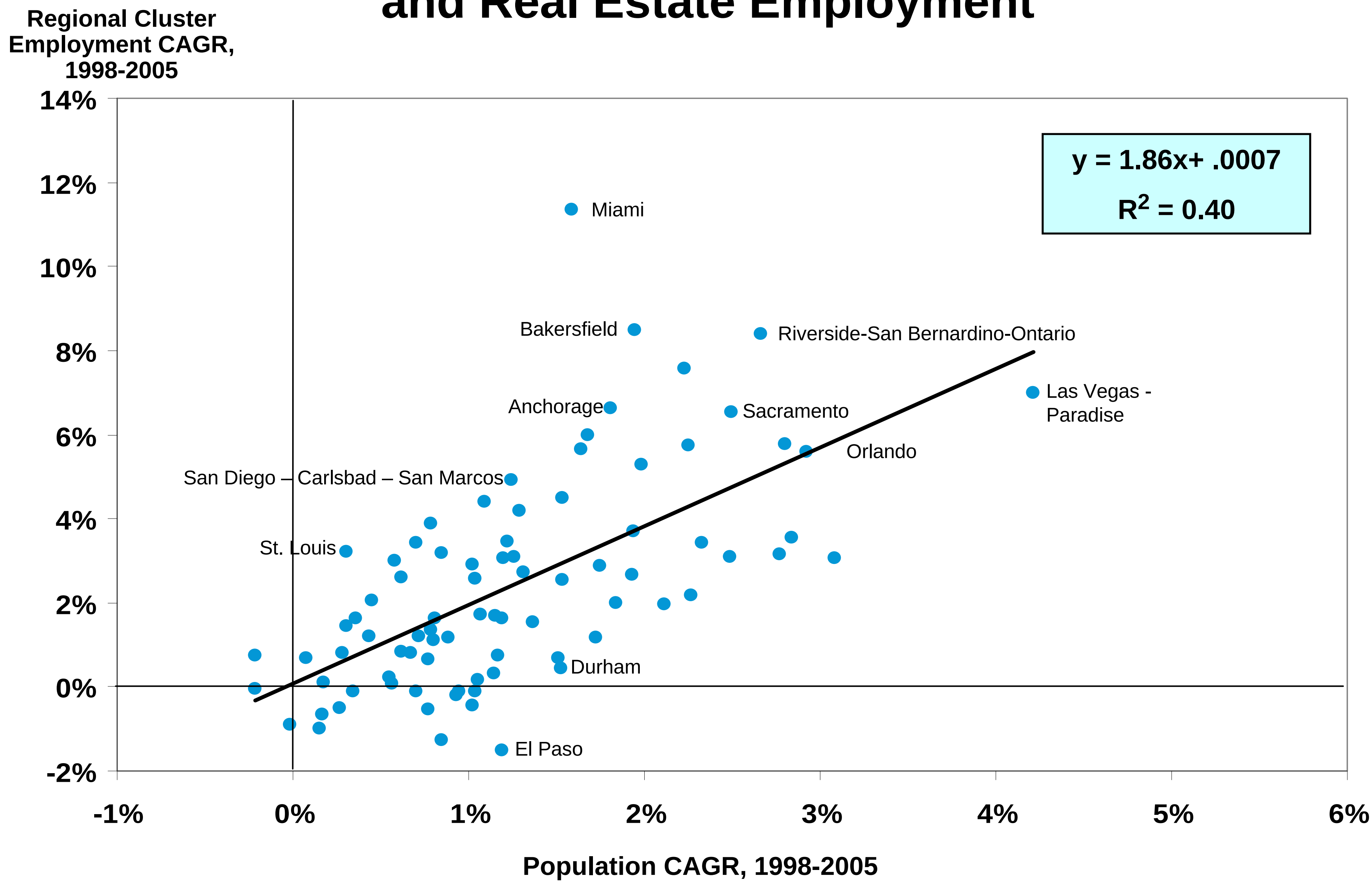
What are the leverage points for increasing the number of inner city projects?

# Population Growth and Residential Permits,
## Metropolitan Areas,1998-2002



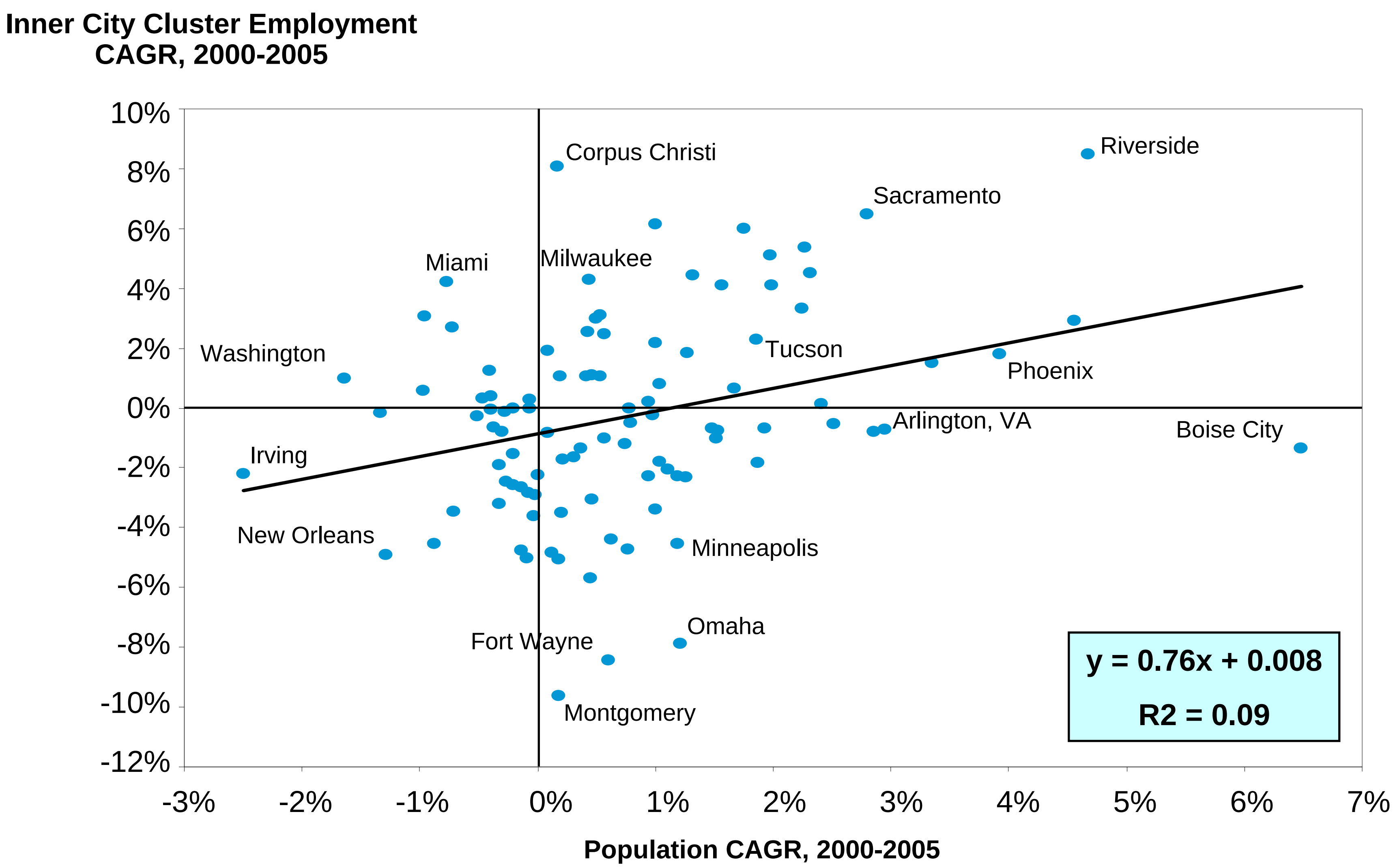

**Population is a strong predictor of new residential construction at the MSA level**

# Population and Growth in Regional Construction, Housing, and Real Estate Employment

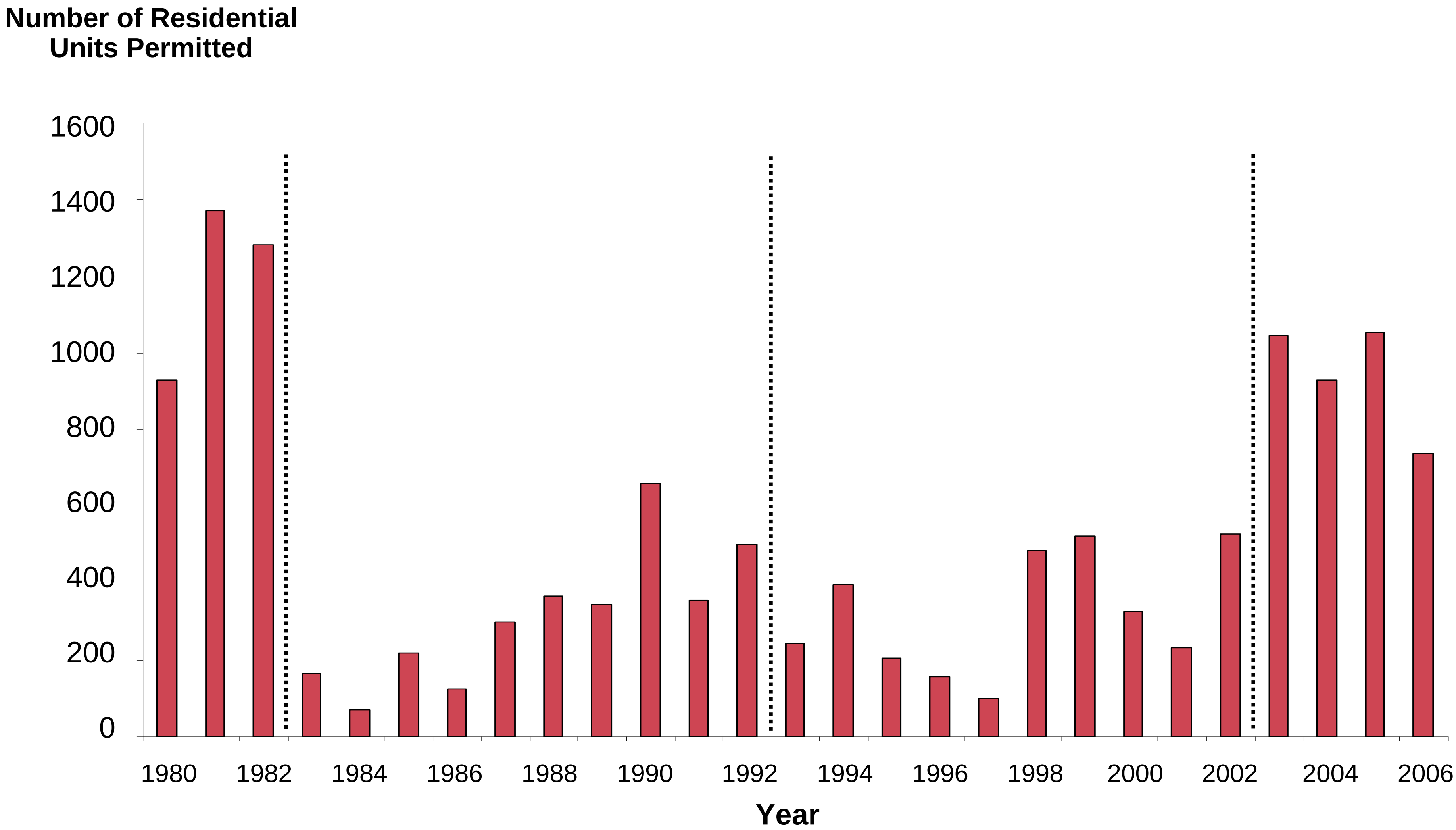



Source: State of the Inner City Economies (SICE) database, ICIC.

# Population and Growth in Inner City Construction, Housing and Real Estate Employment



# Residential Development in Detroit, 1980-2006




**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

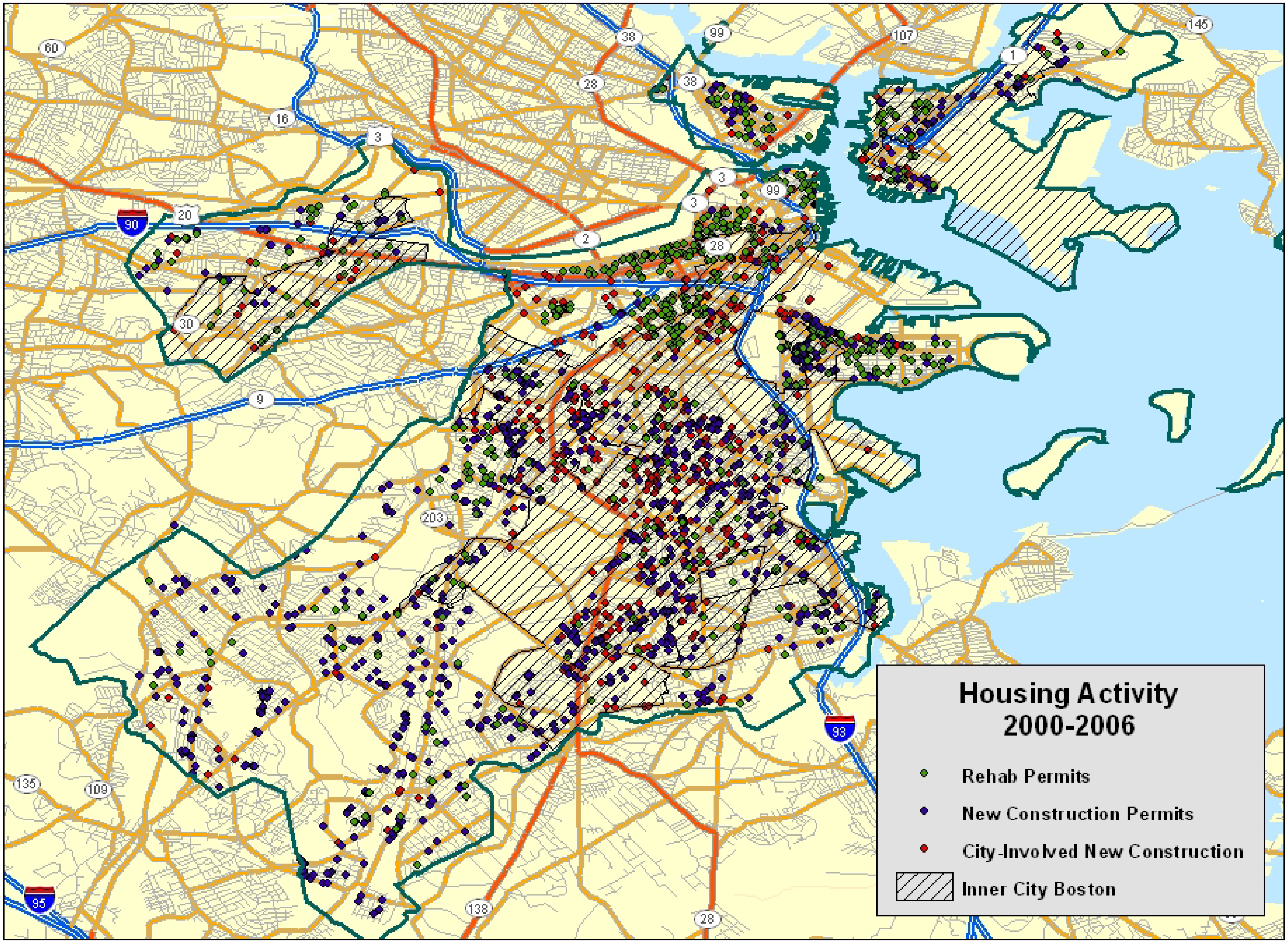
## <u>Financing and Incentives</u>

- 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 and Construction Activity

## Boston, 2000-2006

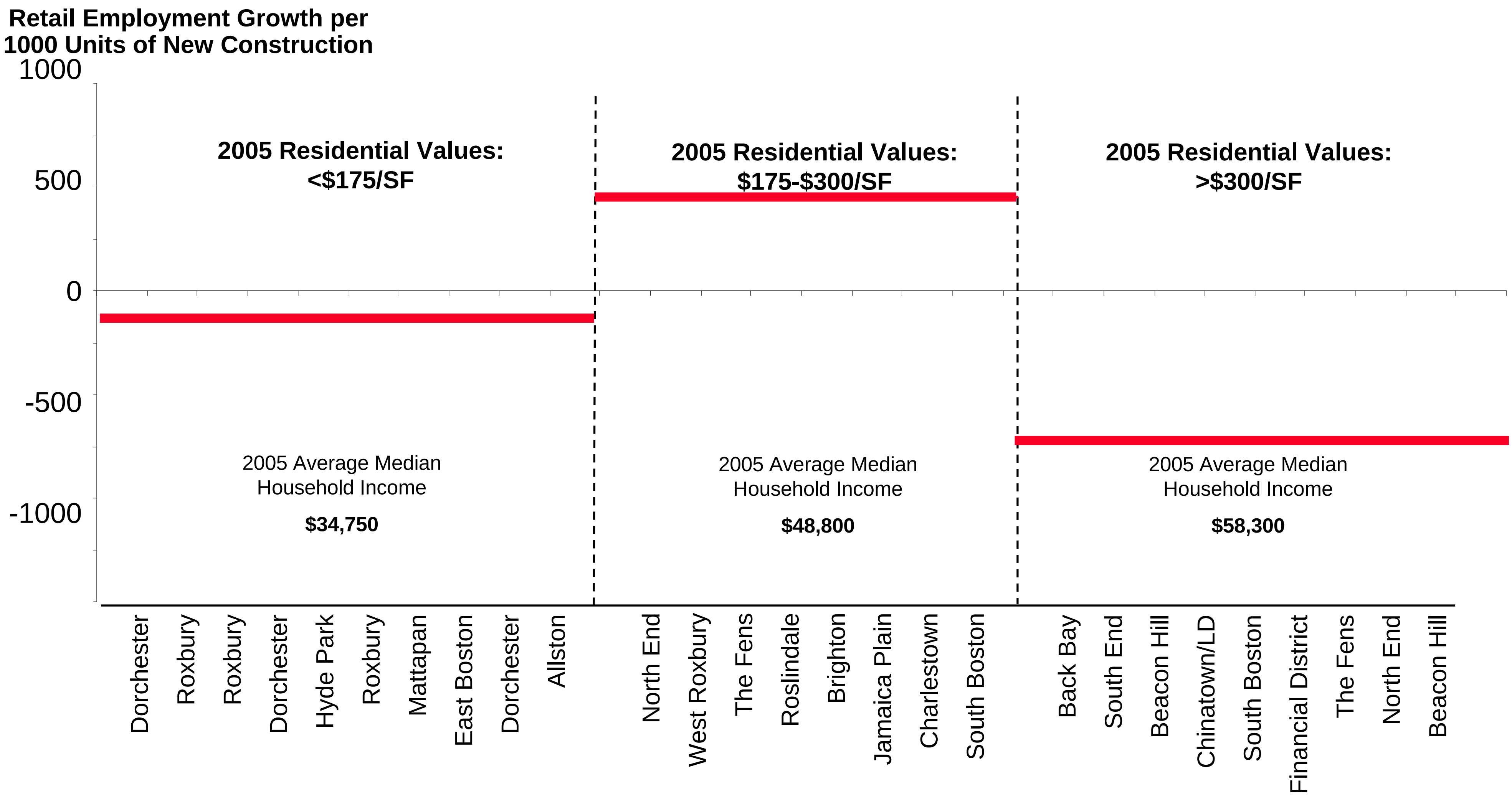





Source: ICIC State of the Inner City

# Boston: Housing Activity and Retail Growth, 1998-2005

## Boston: Retail Growth/New Construction by Zip Code




**Housing investments were associated with increased retail availability in many low- and moderate-income neighborhoods**

Source: ICIC State of the Inner City, Boston Assessing Data, Boston Permitting Data; ICIC Analysis

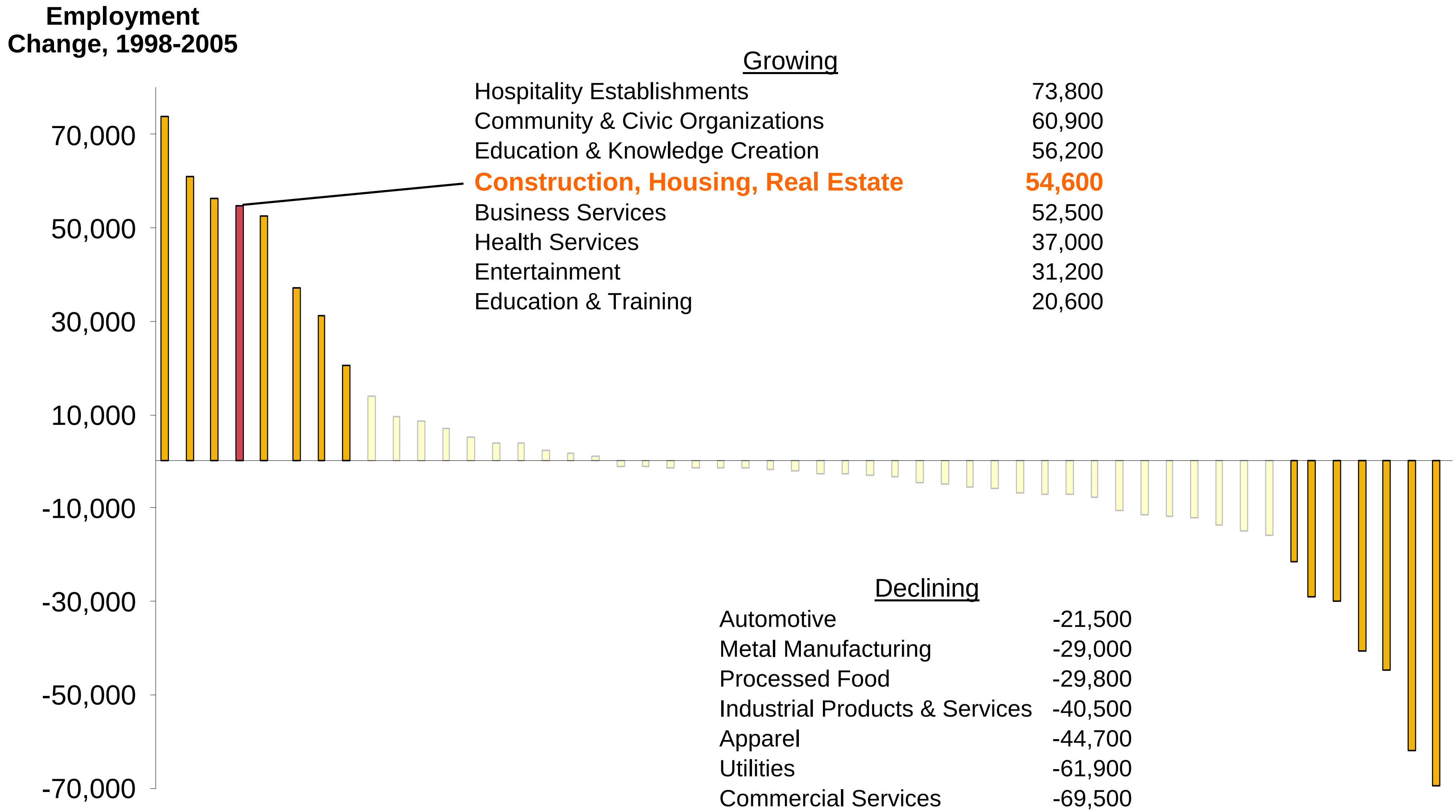
# Construction, Housing and Real Estate Cluster Activity

## 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

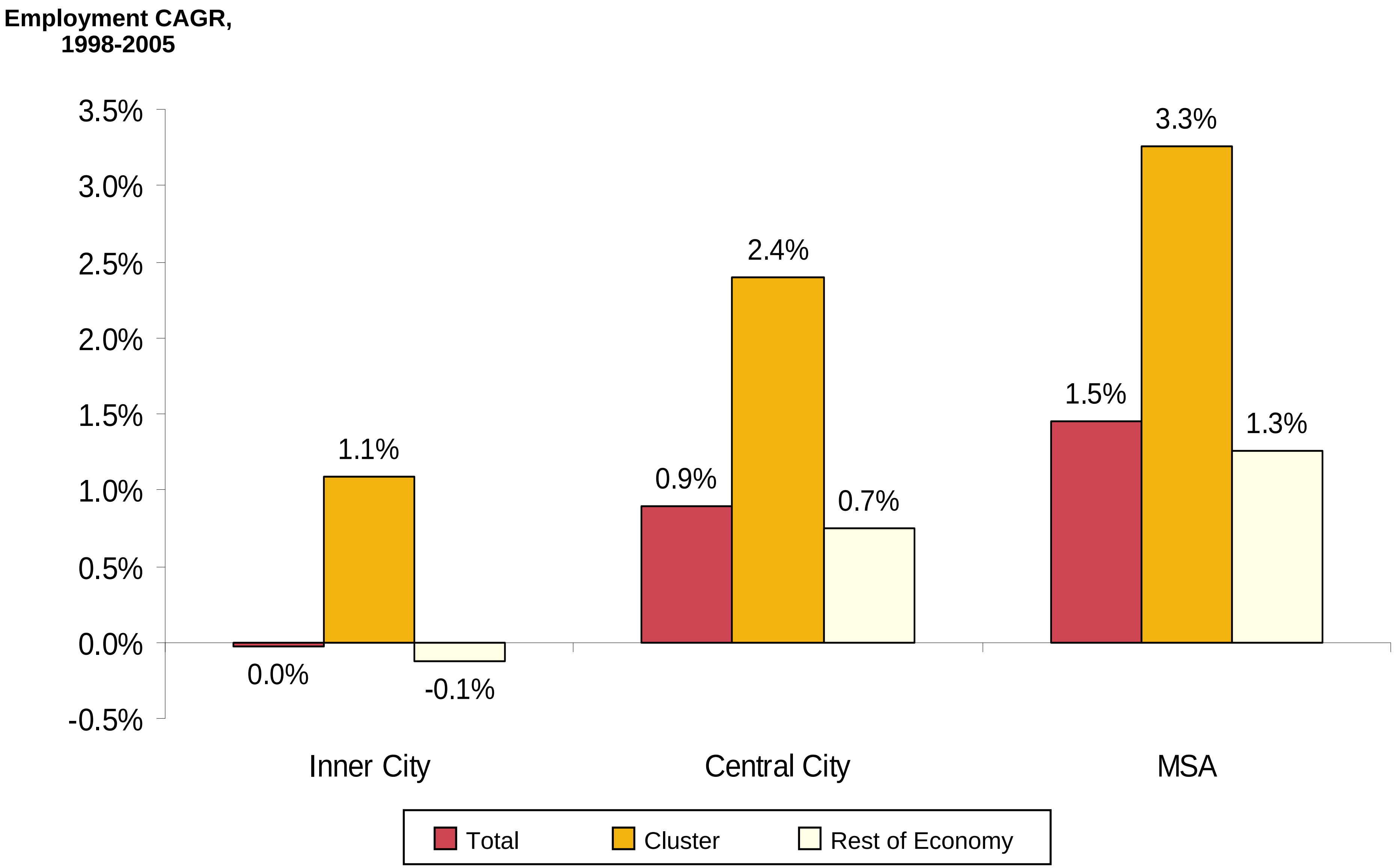
## 100 Largest Inner Cities, 1998-2005




**Construction, Housing, and Real Estate generated more jobs in the inner cities than all but three clusters between 1998 and 2005**

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

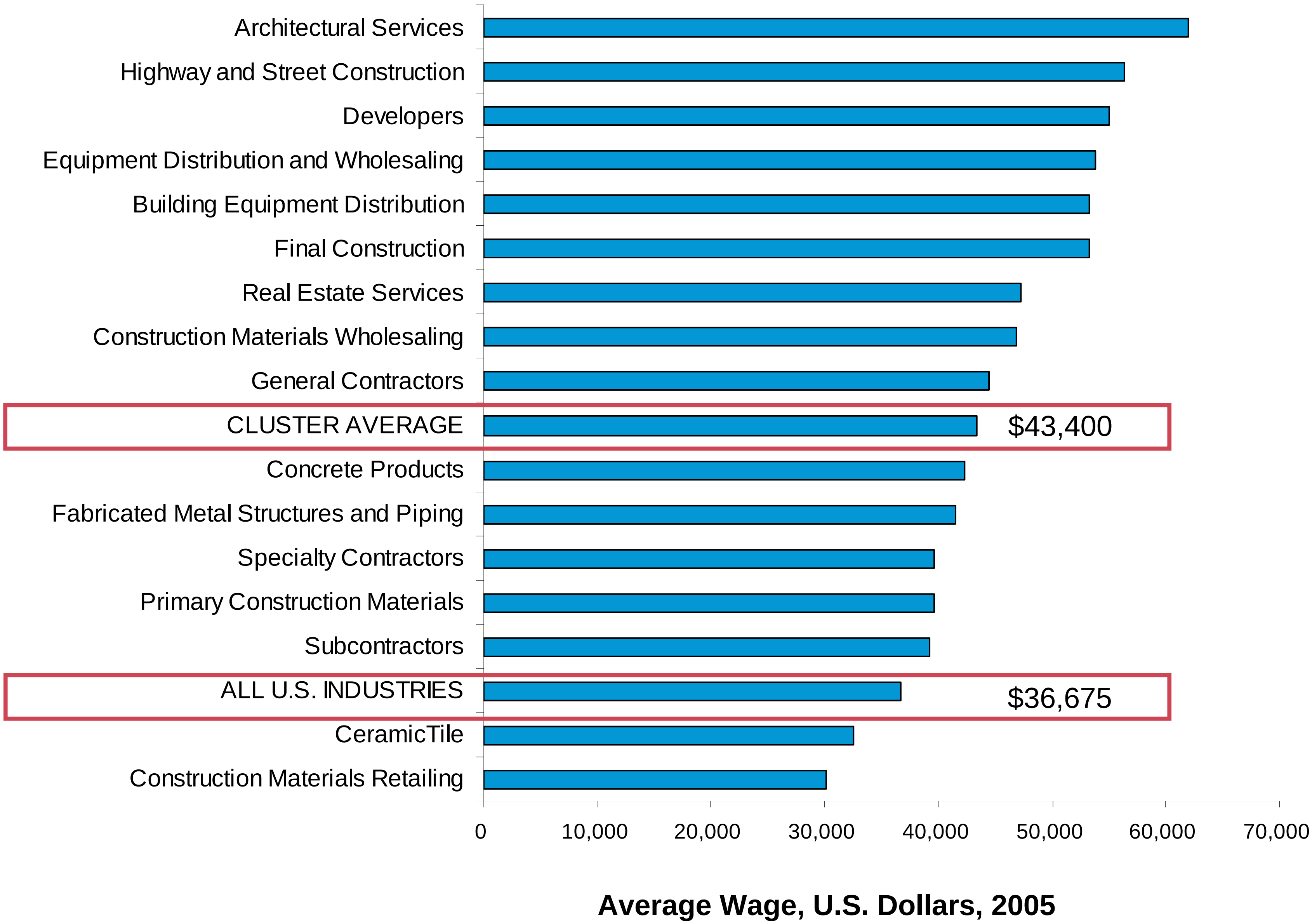
# Growth in Construction, Housing and Real Estate Employment vs. Rest of the Economy




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

# Construction, Housing, and Real Estate

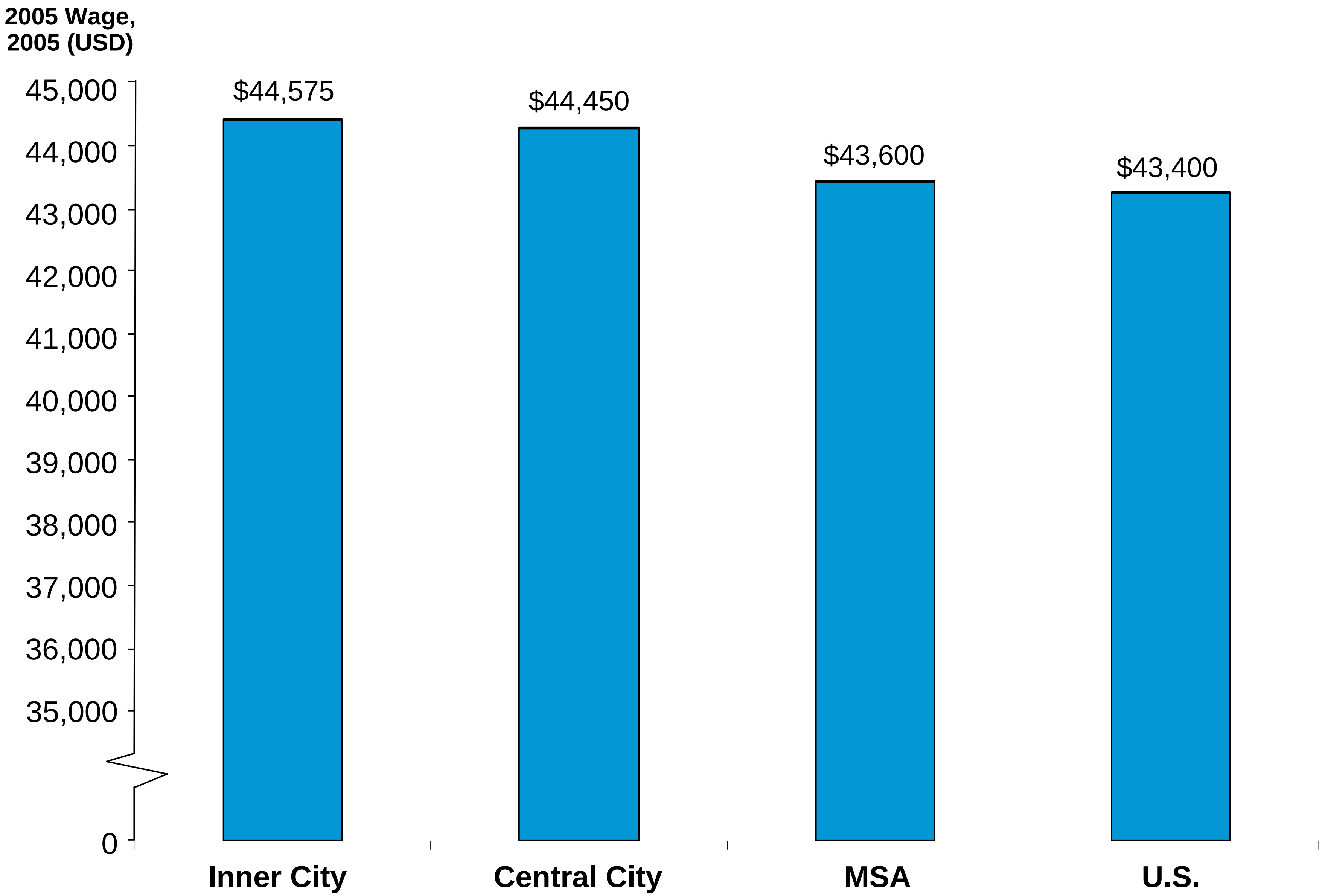
## Cluster Wages, 2005




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

# Construction, Housing, and Real Estate Cluster

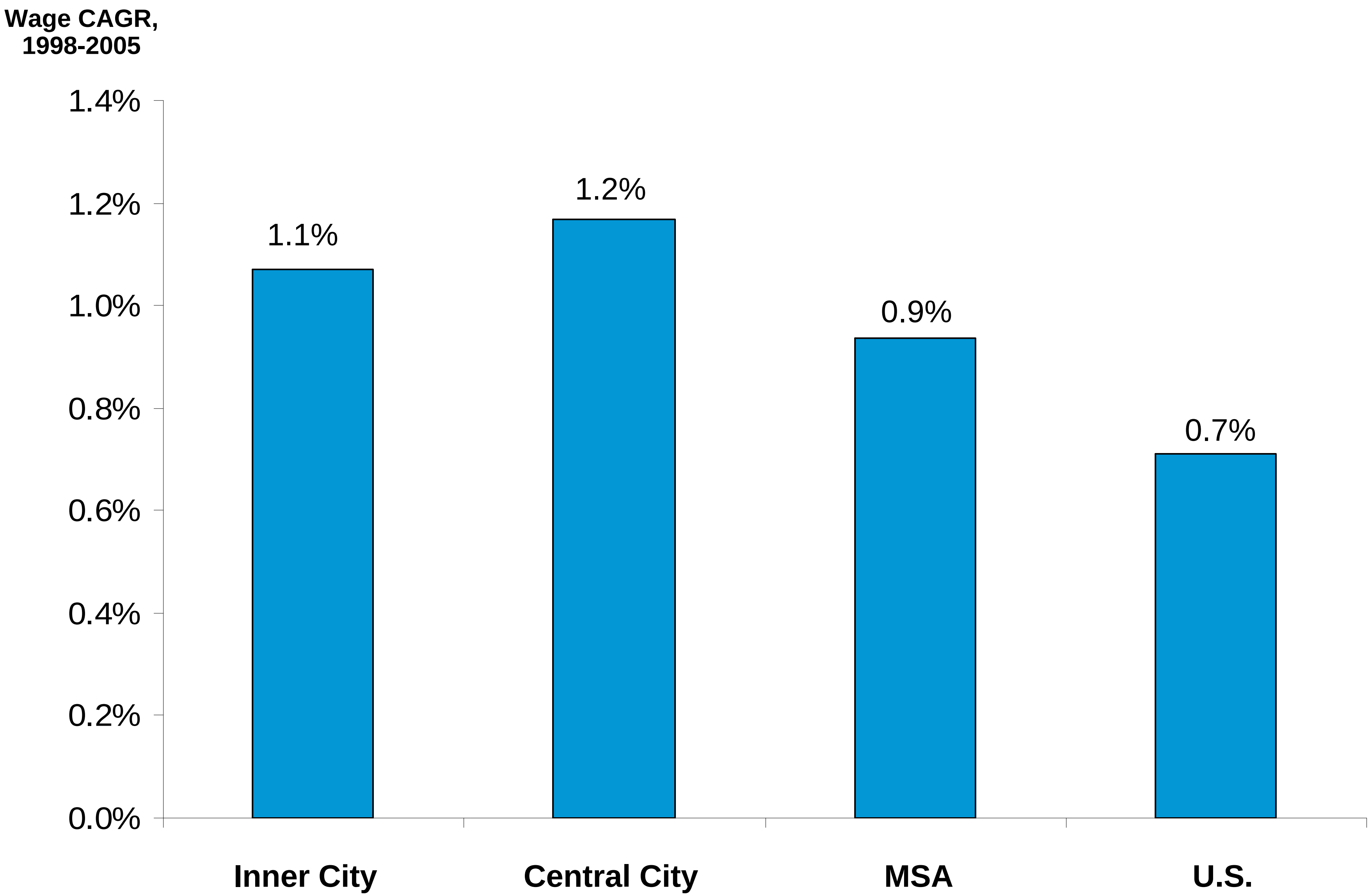
<u>High Wages in Inner Cities Based on Regional Employment Mix</u>




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

# Construction, Housing, and Real Estate Cluster

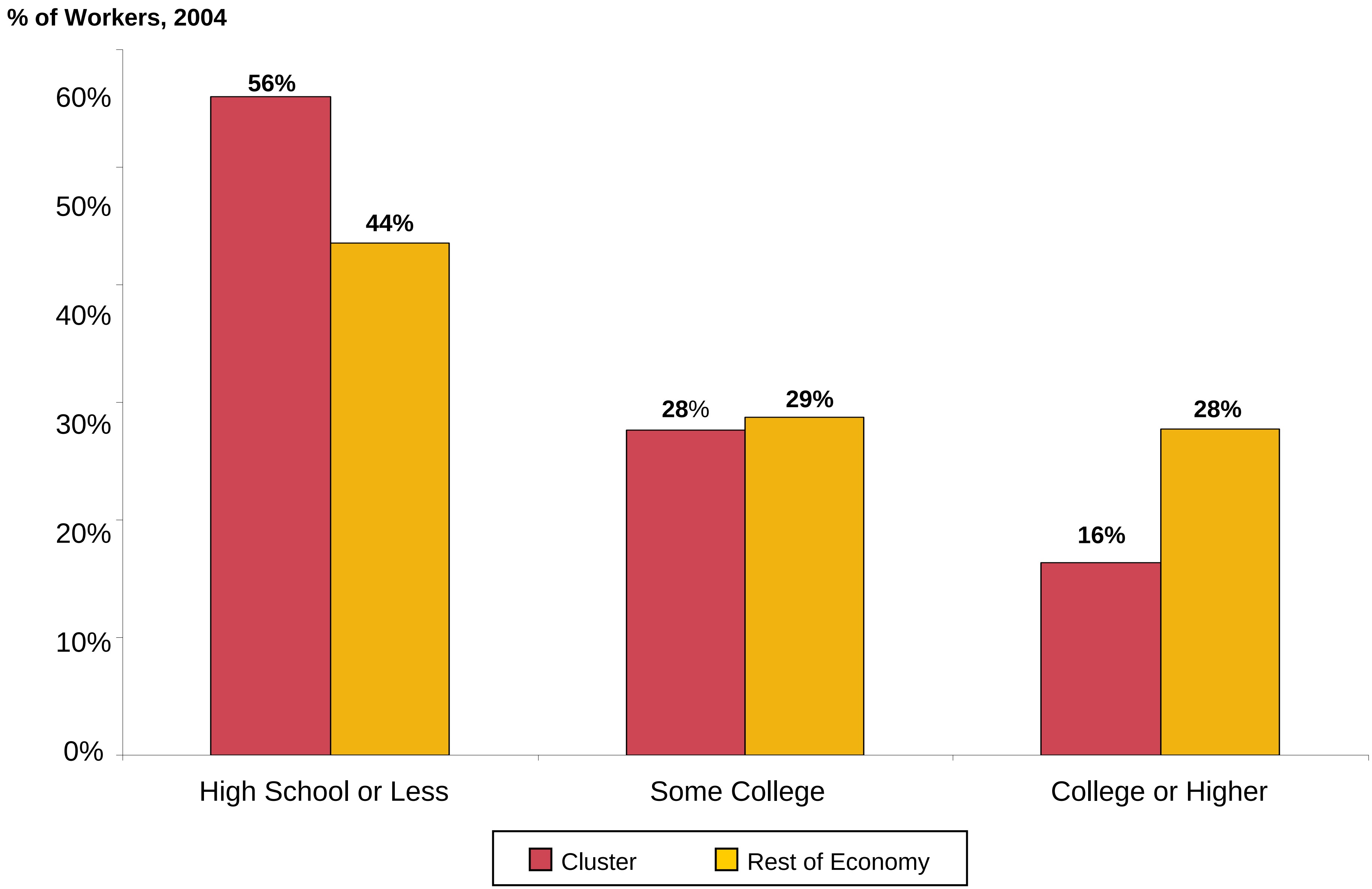
Estimated Wage Growth by Region, 1998-2005




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

# Construction, Housing and Real Estate Cluster

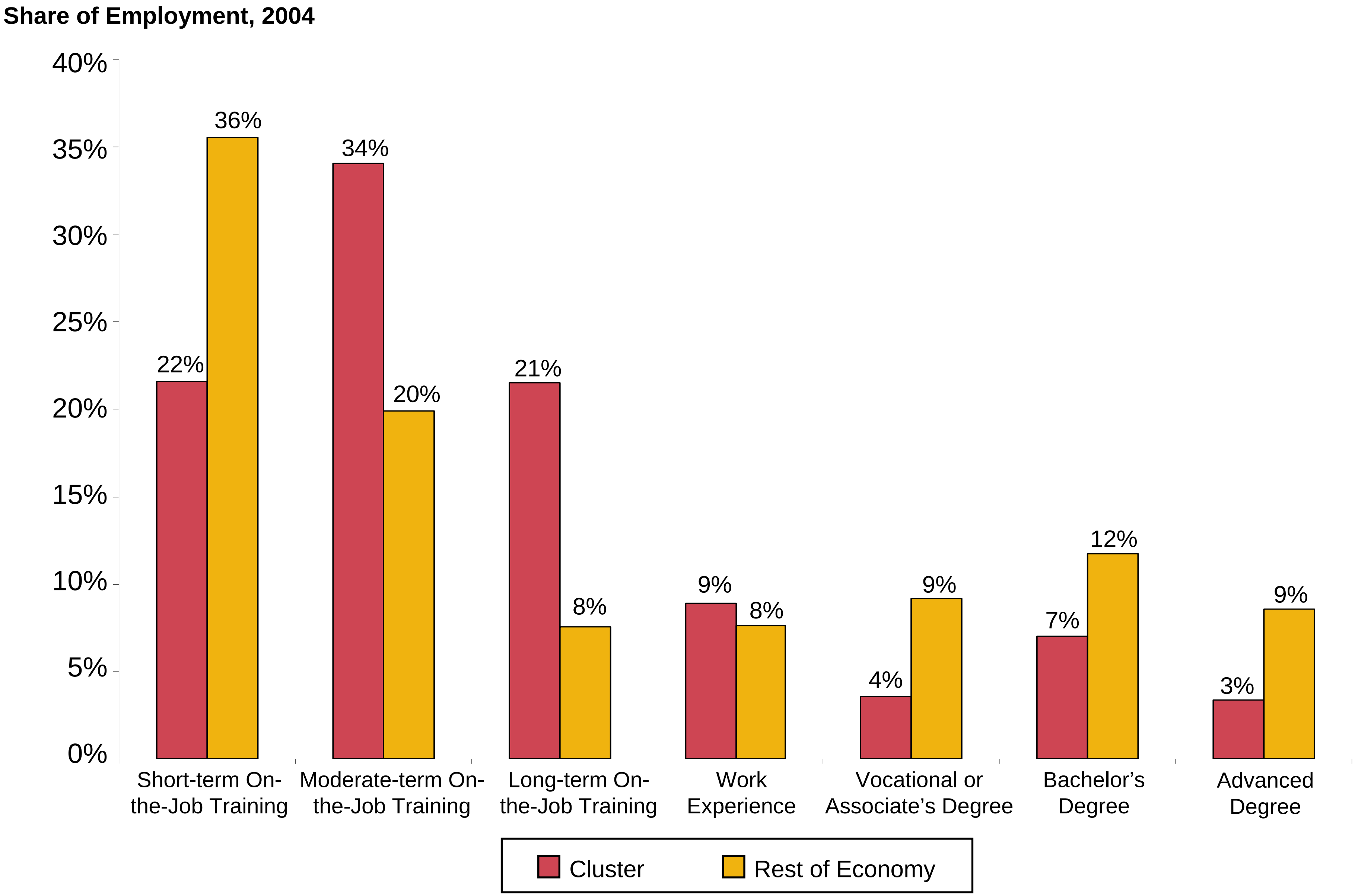
## Educational Attainment, 25-44 Year Old Workers, 2004




Source: Bureau of Labor Statistics , ICIC Analysis

# Construction, Housing and Real Estate Cluster

## Education and Training Requirements, 2004




Source: Bureau of Labor Statistics, ICIC Analysis

# Construction, Housing and Real Estate

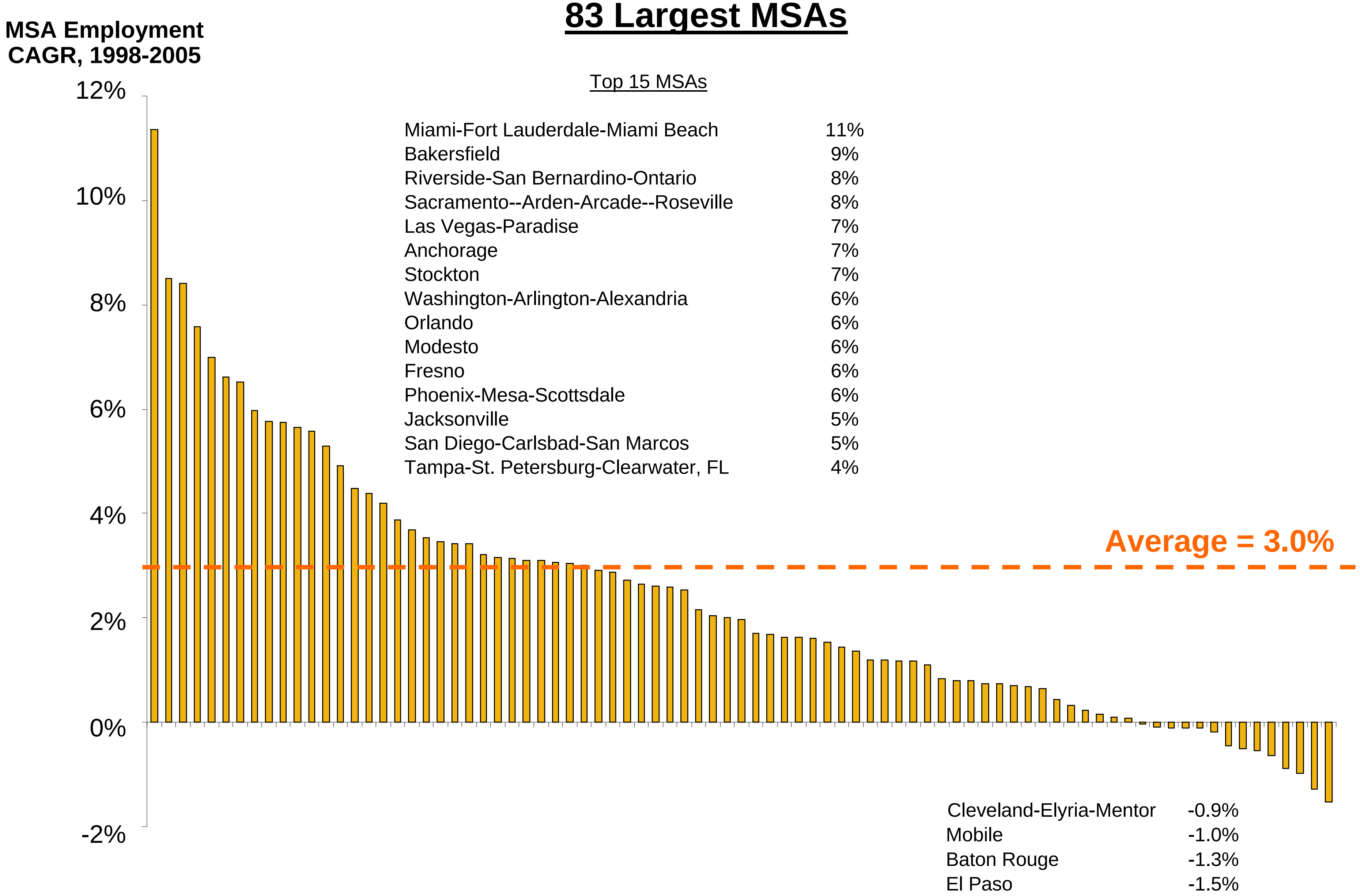
## Self-Employment

- 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

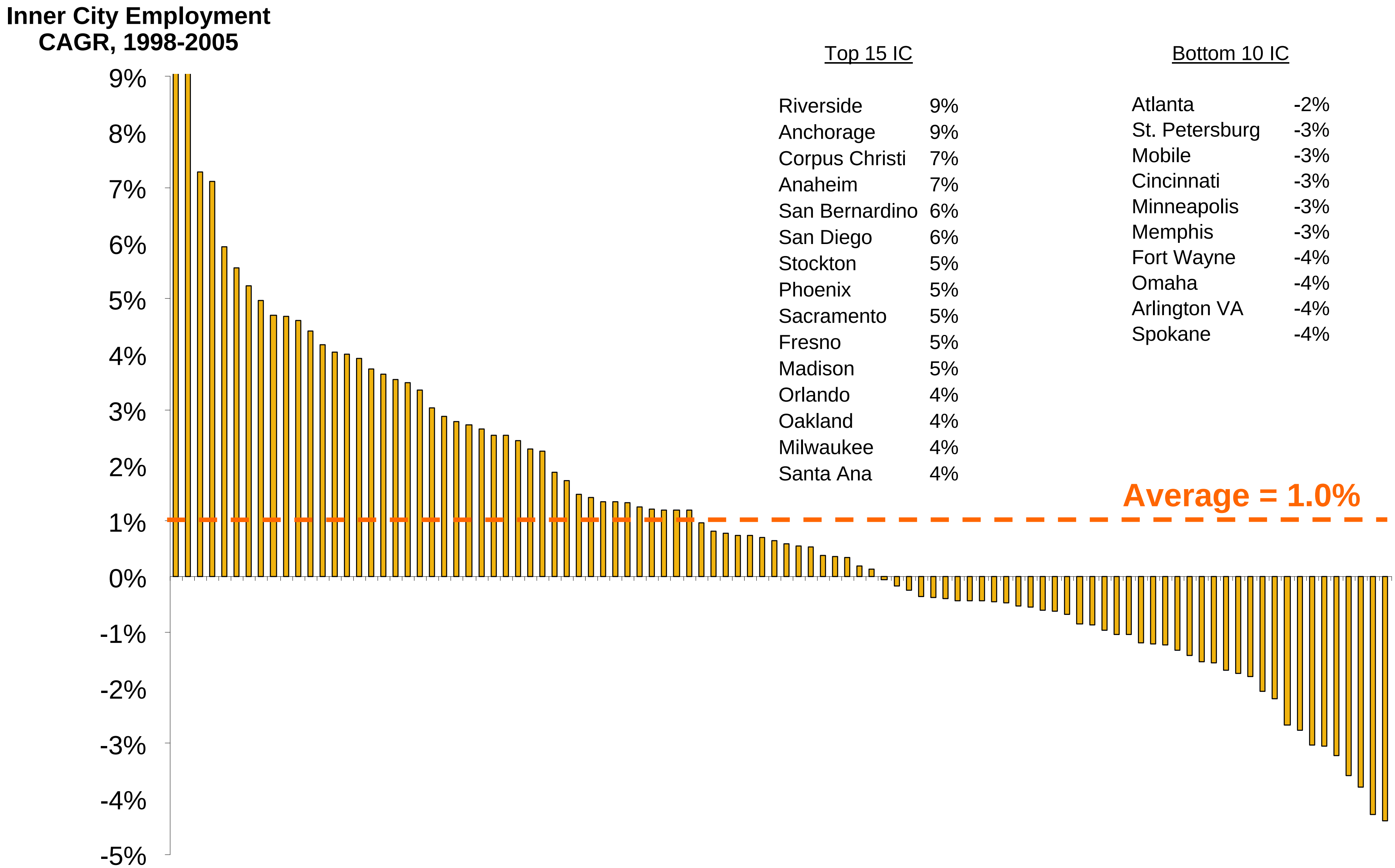
# Difference in Construction, Housing, and Real Estate Cluster Growth by MSA

## 83 Largest MSAs



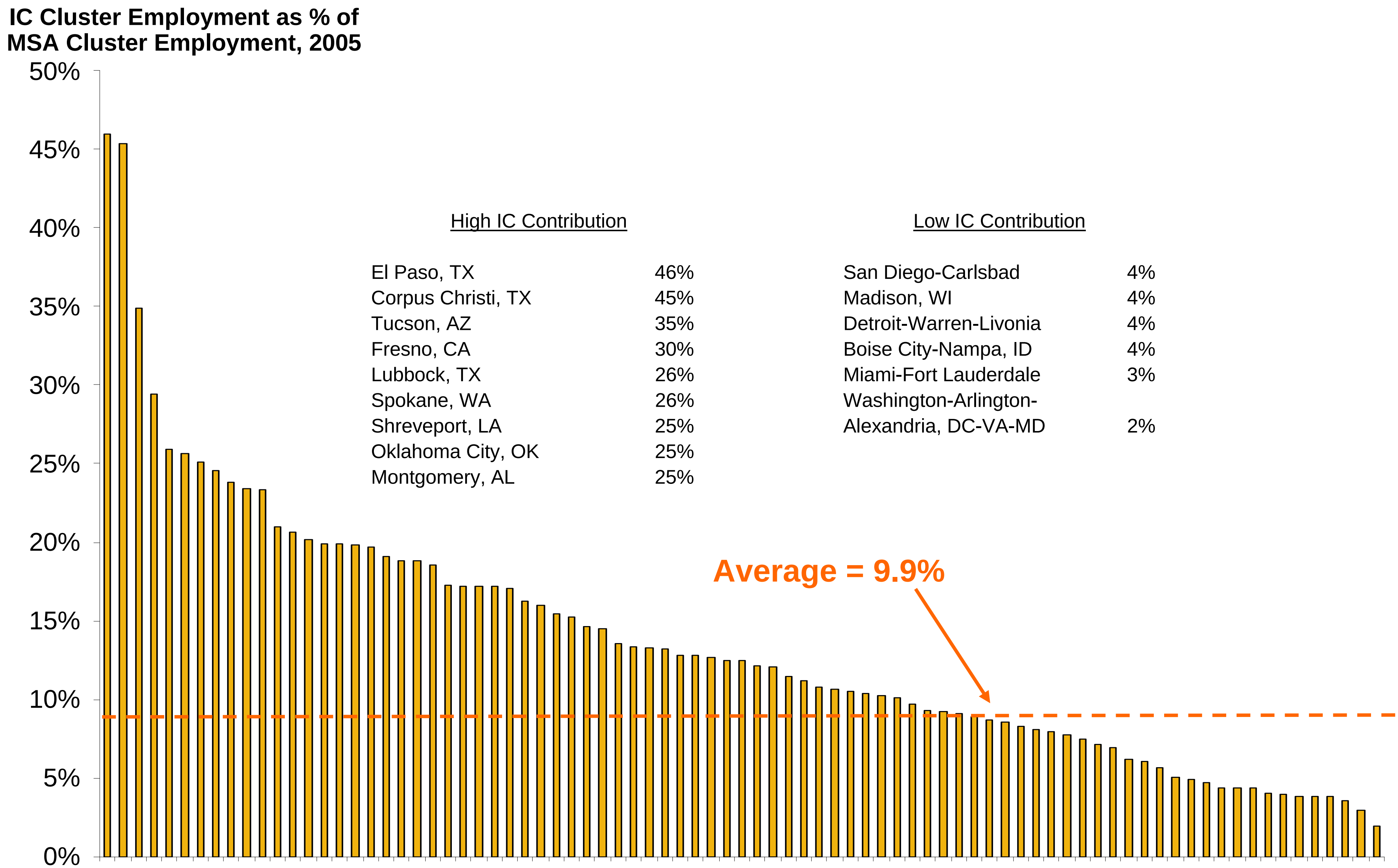

Source: State of the Inner City Economies (SICE) database , ICIC Analysis

# Difference in Inner City Employment Growth in Construction, Housing, and Real Estate, 1998-2005




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

# Inner City Share of the Regional 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% |

**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

**Los Angeles unions are experiencing a skilled labor shortage…**

- Demand for construction workers in Los Angeles county equals the demand for computer specialists
- Because the average construction worker is nearing retirement, future openings are expected to be twice those in the computer field
- Experts project a long-term labor shortages in the building trades

**...with new programs, unions are beginning to tap into the inner city workforce**

- Starting in the 1990s, local unions started recruiting inner city youth and immigrants, including gang members; this effort has intensified
- 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.

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**