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THE REGIONAL ECONOMY

OF UPSTATE NEW YORK

Conference Explores Inner-City Business Development

There are unrecognized business opportunities in America's inner cities, including underserved retail markets and underutilized labor markets. And if cities are to attract investment into these communities, they must provide the basics: good schools, safe streets, modern infrastructure and competitive taxes and services. These were the prevailing themes at a May 1 conference presented by the Buffalo Branch, Federal Reserve Bank of New York, in partnership with the University at Buffalo Department of Planning and held at the university's Center for Tomorrow.

Titled "The Untapped Urban Market: Attracting Business to the Inner City," the event brought together a variety of national experts to discuss the economic challenges faced by inner-city communities and to explore effective strategies for business development. The over 130 attendees came from throughout New York State and represented a wide-range of organizations concerned about inner-city redevelopment, including housing agencies, community banks, economic development agencies, community development corporations, and grassroots coalitions. This edition of *The Regional Economy* summarizes the various inner-city business development models presented at the conference and the discussion that arose around them.

What's Happening on Main Street?

Barbara Walter, senior vice president and branch manager of the Buffalo Branch, opened the forum by affirming the Federal Reserve System's commitment to local markets. "We all know that it's really *people* who drive the economy," she said. "We do follow Wall Street developments. But we have to also know about Main Street."

Irene J. Elia, the mayor of Niagara Falls, New York, focused her opening remarks on local economies as well. She described the flight of factory jobs (and ex-factory workers) from Niagara Falls and the inability of the city to attract much new employment, a problem she blames in part on the notoriety of Love Canal. Yet the Love Canal crisis also led to a

local grass roots effort to raise national awareness of toxic dumping, noted Elia, which helped to launch a broader environmental movement. To promote future economic development, Elia hopes to aggressively market her city's natural assets: parks, trails, an international border, and of course, the awe-inspiring Niagara Falls. A former educator herself, the mayor also stressed the need for more local skills-based education in public schools.

A New Cities Agenda

Bruce Katz, a senior fellow at the Brookings Institution and founding director of its Center on Urban and Metropolitan Policy, was the conference's featured speaker. Katz sought to place inner cities within a larger city context—as disadvantaged communities within central cities that are already struggling with demographic change, population loss, and economic decline. For the good of metropolitan areas as a whole, Katz spoke of the need for central cities and suburbs to plan together: city decline leads to suburban problems, such as increased traffic, the loss of farmland, and the need for increased government spending on new infrastructure. And cities continue to bear an inordinate share of the burden of poverty, according to Katz, in part because of practices like exclusionary zoning, which limit the amount of affordable housing in the suburbs.

A first step toward addressing such problems and becoming economically competitive, Katz noted, was acknowledging the rapidity of demographic shifts—"the need for cities to know who is living there." He pointed out that European Americans are now a minority in the city of Buffalo. From 1990 to 2000, the share of Buffalo's population that was African-American, Hispanic, or Asian rose from 37 percent to 50 percent, reflecting shifts seen in cities across the nation.

Next, cities need to address the fundamentals: safe streets, competitive tax and regulatory environments, modern infrastructure, and qualified workers, said

Katz. He argued that perceptions of high inner city crime were often at odds with reality, with city afflictions such as abandoned housing and overgrown vacant lots contributing to the misperceptions. Katz also stated that cities must deploy targeted skills training to meet the labor needs of businesses, stressing that “as long as workforce development projects are not linked to the job market, they’re not worth anything.”

The Untapped Markets

Claire Kaplan, a vice president at the Boston-based Initiative for a Competitive Inner City (ICIC), began her presentation by explaining that inner-city residents have a huge yet often underestimated collective buying power. While many American firms are anxiously looking overseas for new markets, Kaplan noted that annual retail spending of U.S. inner-city residents equals the retail spending for all of Mexico. There is an untapped labor market in inner cities as well, she said, which represents an inefficient use of human resources.

ICIC, a nonprofit organization that assists municipalities in devising economic strategies for their inner cities, is founded on the belief that a sustainable inner-city economic base is possible only through private for-profit business development and investment based on genuine competitive advantage. Kaplan noted several of the competitive advantages typically offered by inner cities, such as their location near transportation and telecommunications infrastructure nodes and the availability of labor. She acknowledged the disadvantages of the inner city as well, and said that communities must tackle such issues to attract business investment. Foremost among concerns is safety—but Kaplan believes that sensationalized reporting of inner-city crime by local media outlets exaggerates the problem and undermines new investment.

Despite the challenges of an inner-city location, however, many businesses are thriving, Kaplan said. ICIC and *Inc. Magazine* jointly compile an annual list of the 100 fastest growing

companies in America’s inner cities. In 2001, 5 of the recognized companies are located in Buffalo, a tie with New York for second place. (Chicago was first with 10.)

One of the Buffalo companies that made the list is Lifestyle Street Gear, an urban clothing chain. The local entrepreneur who started the firm now spends a good portion of his time mentoring other small businesses through the University of Buffalo’s Entrepreneurial Center. Such university-business partnerships are an important tool in promoting inner-city economic development, according to Kaplan. “It’s good for cities to use higher education and business schools for local economic planning and entrepreneurship training,” she said.

Networks of Success

Margaret Murphy, a consultant and founding director of MidTown Cleveland, a nonprofit, private sector-driven inner-city redevelopment initiative, presented an example of successful inner-city business development on a larger scale. MidTown Cleveland was established in 1982 to revitalize an older inner-city commercial and industrial area that lay along a proposed light-rail transit corridor between Cleveland’s downtown and its university district. Although the railway was never built, the development initiative took hold. Eighteen years later, the formerly struggling area has seen \$500 million in new investment and the creation of 425 new companies and 5,500 new jobs.

Foremost in the success of MidTown Cleveland was the development and maintenance of an organization based upon stakeholder enlightened self-interest, Murphy said. Composed of businesses, nonprofit agencies, labor unions, and other property owners throughout the 55-block MidTown area, the organization provided the leadership, influence, financial resources, and long-term support that were essential for the turnaround.

“I hate to say it, but there’s nothing more important than the ‘Old Boy Network,’” she said, advocating the formal and informal

Ten Key Points from the Conference

- ① Cities must know their context and have an understanding of such factors as demographic makeup, economic structure and performance, and overall strengths and weaknesses.
- ② Cities and suburbs are inextricably linked, and must plan together to promote the economic well being of the metropolitan area as a whole.
- ③ Cities must provide the basics: good schools, safe streets, competitive tax and regulatory environments, modern infrastructure, and qualified workers.
- ④ Inner cities have untapped retail markets and underutilized labor markets.
- ⑤ Inner cities have competitive advantages that can allow businesses to prosper, such as central locations, transportation and telecommunications infrastructure, and available labor.
- ⑥ Inner-city redevelopment requires strong leadership, vision and a long-term plan.
- ⑦ Inner-city redevelopment requires a sustained partnership between business, government, and the community.
- ⑧ Inner-city real estate development requires marketable land that is competitive in cost, environmental conditions and appearance.
- ⑨ Business development must involve input from neighborhood residents. Community development corporations can be a conduit for community participation.
- ⑩ Workforce development must be linked to the job market.

networking sessions that took place among MidTown members and between the organization and other community leaders in the Cleveland area.

Together they concluded, not surprisingly, that confronting the safety issue was one of the first orders of business. “We recognized that inner-city areas that reflect a war-zone image—barbed wire, bars over windows—are not going to be competitive,” she stressed. Murphy then told of the success merchants had when they pooled their money to pay for security patrols, street cleaning, and beautification projects. Murphy also praised MidTown’s cooperative advertising of entertainment events and street festivals, and joint public relations campaigns that helped to alter how the area was perceived.

But the challenges of inner-city redevelopment were underscored by Murphy’s description of MidTown’s attempt to create an industrial park that could compete with suburban locations. The need for large tracts of land for the project meant that MidTown had to assume the role of real estate developer, and the process of land assembly and clearance proved formidable for the nonprofit organization. With such problems as uncertain property ownership, recalcitrant property owners, environmental damage from previous industry (brownfields), and the cost of relocating displaced businesses and residents, MidTown discovered that the process required an enormous amount of capital, time, and labor. Because of these constraints, MidTown was forced to continue an “infill” strategy rather than attempt massive land clearance.

P. Jefferson Armistead, senior vice president for national initiatives at the Local Initiatives Support Corporation (LISC), highlighted a success story of particular interest to many of the conference attendees: the development of a supermarket in inner-city Manhattan. (The lack of a supermarket on Buffalo’s East Side has been a concern in recent years.) Armistead described the role that community development corporations can play in easing a retailer’s entry into this kind of underserved market.

LISC is a national nonprofit organization that acts as a catalyst for neighborhood redevelopment by channeling grants, equity investments, and loans to community development corporations. In 1993, LISC began working with the Abyssinian Development Corporation and the Community Association of the East Harlem Triangle to attract food retailer Pathmark Stores to an East Harlem neighborhood. With 145,000 residents living within a one-mile radius of the store’s proposed location, the community had a large untapped retail market. But showing that a market exists is only one of the hurdles that must be overcome in persuading a retailer to locate in an older inner-city area, according to Armistead. “Yes, there is a market there, but it often takes a great deal of time and work to gain access to it,” he said. “It’s always more expensive than you realized; that’s not necessarily a problem, but just something you have to deal with.”

In addition to providing a grant and loans for the project, LISC helped the community development corporations access other sources of funding, negotiate the city’s zoning and workforce requirements, and answer neighborhood residents’ traffic and environmental concerns. Pathmark signed a 25-year lease to operate at the location in 1996, and opened its 50,000 square-

foot supermarket on Harlem’s busy 125th Street in April 1999. Pathmark executives knew the investment might be costly, but they were surprised by the return on their investment. “Their new inner-city stores are among their top stores on the profitability chain,” Armistead said.

Shorebank, a Chicago-based community development bank, has also had success in persuading national retailers to locate in the inner city. Shorebank has been operating in south and west-side neighborhoods of Chicago since the early 1970s, providing a variety of financial tools to low-income families and small and mid-sized businesses. According to Shelly Herman, a senior managing director at Shorebank, the company has developed expertise in strengthening underserved markets for business investment and growth. She said that Shorebank is now using this market intelligence to help companies make decisions about locating, marketing, and operating in urban communities.

As an example of Shorebank’s advisory service, Herman described how the company helped Home Depot move into Chicago’s South Shore neighborhood. Herman said Home Depot’s regional managers were at first reluctant to consider a new store in the city. According to the company’s revenue projections, suburban locations would be far more profitable since residents there had higher median incomes. But Shorebank staff pointed out that the collective buying power of residents near the proposed inner-city site would be enough to sustain the “big box” retailer because the neighborhoods had a high population density. Home Depot eventually placed the store in the city and found that Shorebank was right. “That store is doing at least triple what it was projected to do,” she said. This example underscored a point brought out by Bruce Katz earlier in the day: retailers usually use suburban models to make store location decisions, and these models often miss business opportunities in urban communities.

While attracting national retailers like Pathmark and Home Depot to underserved communities is an important component of inner-city redevelopment, it is only one among many strategies. Another way to bring business back to the inner city is to help local residents start businesses in their own neighborhoods. Herman outlined a program founded in 1996 called “The Runner’s Club,” a micro-business incubator similar to those developed by the U.S. Small Business Administration. The club gives start-up and financial management advice to adult and youth entrepreneurs; she cited the success of one group of young club members, who made \$200,000 in sales their first year.

Ongoing Challenges

The event culminated with a lively and informative panel discussion as the lineup of national speakers and some local urban experts faced a round of questions from conference attendees. Much of the session revolved around the remarks of Henry Taylor Jr., an associate professor with the University at Buffalo Department of Planning and director of the university’s Center for Urban Studies, who explained what the research activities of the Center have revealed about economic development in Buffalo’s urban core.

Taylor took issue with the notion that the lives of inner-city residents will be appreciably improved simply by locating

businesses in urban communities. He said that there are already a significant number of jobs in Buffalo's inner-city neighborhoods, but these jobs are often unavailable to the people living nearby. As an example, Taylor cited the heart of Western New York's health-related industry, which is located in one of Buffalo's poorest communities. He said that this agglomeration of hospitals, medical offices, and educational and research facilities provides thousands of inner-city jobs, but the neighborhood still has an unemployment rate of more than 25 percent. One solution, Taylor believes, is to link job-training programs to the needs of local businesses. "Economic development does not work by itself. It has to be coupled with workforce development," he said.

Taylor also said there should be more support for neighborhood businesses, noting that this is one way to truly create inner-city wealth. He encouraged programs to provide more start-up loans and tax incentives for small business owners and other efforts to promote inner-city entrepreneurship. Taylor believes that too often the focus is on large-scale economic development projects, which he said do little to benefit inner-city residents and often lack community input.

But others pointed out that the reluctance of citizens to participate actively in community issues is a problem in its own

right. Before taking an outreach position with a Buffalo organization called Heart of the City Neighborhoods, Richard Morrisroe taught at a public school in one of the neighborhoods Taylor described. "The apathy in the community was staggering," Morrisroe said. "If I could get more than 2 percent of my parents to come to a PTA conference, I was happy."

LISC's P. Jefferson Armistead noted that community development corporations are one way to facilitate community participation. "Community development corporations play a powerful role in expressing dreams and hopes in a community," he said. And Armistead believes that residents can be instrumental in catalyzing revitalization of their own neighborhood. As the conference came to a close, he described "the 'paradox of small beginnings.' We've seen a lot of changes made that started with people fixing 'just one house' and 'just one block' in the city," he said.

The complete conference proceedings will be forthcoming at www.newyorkfed.org/buffalo.

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