Mark W Olson: Community development and the bigger picture

Remarks by Mr Mark W Olson, Member of the Board of Governors of the US Federal Reserve System, at the Social Compact Visionary Awards, Washington, DC, 25 May 2006.

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I appreciate the opportunity to join you this evening to recognize the successes of an impressive list of community revitalization projects. Having observed the revitalization of Washington, D.C., over a number of years, I am particularly pleased to be here at the Tivoli Theatre and see first-hand the work that has been done to restore this historic theater and bring new activity and investment to the Columbia Heights neighborhood.

As I look around, it is hard to believe that such an architectural gem sat vacant for some twenty-eight years. The restoration of the Tivoli honors the past while helping serve the residential, commercial, retail, and cultural needs of Columbia Heights residents. It is a fine example of the transformative power of investments in older, urban neighborhoods. Projects such as this would not be possible without the strategic vision and commitment of community, business, and government leaders. It is that vision we are here to celebrate this evening.

I would like to begin by offering a review of the overall economic climate today and the prospects for business investment generally. Then, to borrow a phrase from Social Compact, I will "drill down" to highlight a number of the elements that I believe are important in making sound investment decisions, particularly in underserved areas of our inner cities. Finally, I will offer a few other observations about the state of the community development industry as I see it.

Macroeconomic conditions

The recent news on the U.S. economy has been, on the whole, quite positive. Adjusted for inflation, gross domestic product increased at a brisk rate in the first quarter of the year. Gains in consumer spending and business investment were particularly strong. To be sure, most forecasters are expecting the overall pace of economic activity to moderate to a more sustainable pace in coming quarters as housing markets gradually cool and the delayed effects of higher interest rates and energy prices temper domestic demand. However, with economic activity abroad expanding at a solid pace, export sales should provide some support for domestic production.

On balance, the outlook for business investment should remain quite favorable even as the pace of overall activity moderates. Against a backdrop of sustained growth in sales, businesses should be well positioned to undertake potentially profitable projects. They have enjoyed robust earnings for the past several years, and their balance sheets are strong. The reports on first-quarter earnings have been quite positive, and available measures of credit quality, such as credit ratings and loan defaults, show few signs of stress.

Financing costs have moved up since last fall, but the Federal Reserve's most recent survey of bank lending practices, which was conducted in April, indicates that domestic banks are noticing increases in requests for business loans. They also indicated an increased willingness to supply business loans in an environment of brisk competition from other lenders, a liquid secondary market for business loans, and an increased tolerance for risk. In that regard, research conducted by Federal Reserve economists notes that more banks are offering loans to businesses in markets where the banks do not have branch offices; the research suggests that new technology has spurred competition for some types of small business lending in recent years. More broadly, businesses currently have access to plentiful debt and equity financing from a variety of sources in addition to banks.

The challenge that community development practitioners face in working with businesses looking for new investment opportunities is to demonstrate through careful analysis that promising inner-city neighborhoods can be good investments. That the current overall conditions for business investment are positive is thus good news for the work of Social Compact and its partners.

The Importance of data to investment decisions

Community development has come a long way since I first began following it as a young congressional staffer thirty-five years ago. Whereas government programs once funded the bulk of inner-city development, public-private partnerships now dominate. In many places, community-based organizations have been able to "jump start" markets by facilitating private investment. The focus of neighborhood revitalization has shifted increasingly toward market-based approaches. In that regard, organizations that seek to promote neighborhood revitalization must focus on what makes their projects competitive.

Social Compact is perhaps best known for its focus on one important input into the investment process--information. Timely and accurate information is what project planners need to bring entrepreneurs, investors, and lenders together to objectively assess the proposed undertaking. Having been a banker, I know very well how much more efficient the process can be when decisionmakers are presented with a clear assessment of the projected returns and a balanced analysis of risk.

Another related feature of market-based investment decisions is the importance of built-in measures of accountability. Hard data on results are important in establishing the credibility of projects. With data, and results, such investments can also serve as catalysts for additional private investment in underserved areas. A number of methods have been derived for evaluating the effectiveness of community development projects. The one with which I am most familiar, through my work on the board of NeighborWorks America, is the Success Measures Data System. This system uses more than forty indicators and a variety of data-collection tools--including surveys, interviews, and focus groups--to quantify the effects of housing, economic development, and community building programs at the personal, organizational, and community levels. This array of tools allows NeighborWorks to measure success not just quantitatively but qualitatively, looking beyond the numbers to detect sustainable positive change. The underlying philosophy is that a community development initiative cannot be judged successful just because it puts a family in a home; rather, it must be able to say that, by doing so, it has improved the community, the family’s quality of life, and the family’s economic potential.

These data are also useful to corporate partners insofar as they demonstrate business performance against internal goals and commitment to the community. Businesses recognize that demonstrable success enhances their reputation, increases brand recognition, and improves their ability to compete successfully for future partnership opportunities. Thus, being able to determine the return on a business’ investment in a community development initiative in both quantitative and qualitative terms is the next logical step in attracting further private investment.

But the social and economic needs of our inner-city neighborhoods extend beyond business investment. Effective partnerships with local officials and community leaders are another key element of the revitalization process. At the state and local levels, public officials contribute to the attractiveness of investment conditions by maintaining sound fiscal policies. These policies allow local officials to take the lead from Social Compact and begin to market local neighborhoods using the analysis that demonstrates the buying-power residing within these more challenging neighborhoods. Their willingness to address other neighborhood needs, such as housing, infrastructure, education, health care, and other social supports will also be important to investors.

In general, when community development is a cooperative effort, it can lead to more sustainable outcomes along both economic and social dimensions. While the return on investment can be a sufficient gauge of their economic success, success in broader terms can be viewed by assessing the commitment of all segments of the community to the goal of revitalization. Moreover, the benefits of such cooperative actions are not always readily measurable in dollars and cents. Greater opportunities in local neighborhoods evidence themselves through better schools and stronger ties forged within the local community.

The importance of vision

So far, my remarks have focused on the tangible aspects of planning and investment. But I do not want to leave out a critical element that is perhaps impossible to measure but underlies each of your undertakings. That element is vision. The *Washington Post* has reported that when Joe Horning walked through this theater eight years ago, he was surrounded by broken windows, rotted floor boards, and leaks in the roof. That’s what he saw. But what he envisioned was quite different. He envisioned a beautifully restored theater that would not only serve the community but, more important, also serve as a symbol that Columbia Heights could be revitalized.

Indeed, in the past eight years, that vision has been realized, with Columbia Heights today a vibrant and viable neighborhood. As in similar neighborhoods in the District of Columbia and throughout the United States, there is much to celebrate in the results of community investments. The increase in street traffic and economic activity makes the neighborhood a livelier and safer place. Property values are rising, and that allows homeowners here to experience the wealth-building power of homeownership that their peers in more-affluent areas have experienced for years. It also enables them to invest in the rehabilitation of their homes. This additional investment improves the look and feel of the entire neighborhood. Of course, the higher home prices and rents that result from the increased desirability of this neighborhood also limit the availability of affordable housing. These pressures on the market are being felt here in the Washington metropolitan area as well as in other expanding real estate markets.

The question of gentrification in Columbia Heights was interestingly portrayed in the *Washington Post* earlier this month through the eyes of a pair of twelve-year old girls who have grown up in this neighborhood. The girls entered a citywide essay contest on gentrification, a word that they had not previously known, and observed very keenly the effects of the development going on around them. They noted their increased feeling of safety as they walked to and from school thanks to the rehabilitation of previously vacant rowhouses and the exciting new diversity of individuals living in their neighborhoods. But they also missed the friends whose families were forced to move out of the neighborhood when it became too expensive to stay. They were saddened by the loss of some of the smaller shops that will be replaced by larger retailers. In the end, the girls concluded that gentrification is a complicated issue, and its results are "not always bad and not always good."

I would have to agree that gentrification is complicated and requires thorough thought and planning as neighborhood revitalization strategies are developed. Many strategies are being developed at the local level to address the increasing need for affordable housing; these strategies include housing trust funds, private activity bonds, and community land trusts, to name just a few. The Federal Reserve Bank of Richmond is currently studying patterns of home price changes and gentrification in neighborhoods here in Washington, D.C. The work is intended to assist city governments, community development corporations, and funders in anticipating and mitigating the effects of gentrification on lower-income residents. As difficult as the challenges seem, I am confident that if policymakers, researchers, and public and private community development practitioners continue to work together, they will be able to balance new investments with strategies to encourage affordable housing options for sustainable and equitable community development.

In the meantime, my colleagues at the Board of Governors and I are committed to sustaining a noninflationary economic expansion and a healthy financial system, which should create a solid foundation for the development of new business opportunities. Of course, although a strong economy and vibrant capital markets are necessary to establish a solid market-based foundation for economic development, they are not sufficient. Successful community development projects require vision, commitment, tough choices, and hard work. Indeed, these are the qualities that each of the projects honored here tonight share. I am pleased to be able to give my personal congratulations to tonight's honorees and to Social Compact for leading the way in the effort to uncover the market potential of inner-city neighborhoods through innovation, risk taking, and the sharing of results.