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Neighborhood Commercial Development for the Long Term

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Sustainable community development in urban neighborhoods requires a fundamental shift in our approach. In the recent past, the scope of commercial development efforts has been limited to specific land parcels. In the future, healthy neighborhoods will foster development as a social process as well as a real estate transaction -- one that builds wealth in the nearby locale.

One of the fallacies that gets in the way is the notion that low-income neighborhoods, in particular, must be better linked to the global economy. In reality, American communities have been linked to global markets ever since the first European settlements. Low-income neighborhoods are already highly linked. The trouble is, these linkages extract wealth from the poor and the marginal. What is needed are linkages that actually benefit the locale. To some degree, these may be built from inside the community.

Local business in a global marketplace

To be sure, the increasingly competitive global economy places extraordinary pressures on local commercial enterprises, and requires more sophisticated approaches. Local stores that formerly could count upon close support from neighborhood shoppers find themselves competing directly with national and international firms. Large-scale retail networks threaten to undermine the social connection between consumer and retailer. The lifting of governmental regulation may eradicate policies that have protected the ability of local businesses to serve local community needs.

It is commonly stated that neighborhood commercial stores must learn to compete in international markets, adopt new technologies, and further rationalize their organization if they are to survive. In some cases this is quite true. Yet it is also true that to compete in global terms may undermine the very reasons for being a local business - which is all about building community and developing locally owned wealth. No ma and pa operation can compete on price against a massive retail operation that is determined to undermine its competition - but neither can any solid local community be built around the impersonal relationships inherent in ultra-competitive retailing. Nor can a giant firm continue to compete if it undermines income in its customer base. As George Soros has pointed out, we can have a market economy, but not a market society.²

While the entire city is affected by larger economic trends, that is not to say we must be ruled by those trends. Starting a development process by reviewing trends achieves different outcomes than beginning by advancing community goals. To build strong neighborhoods, residents will want to carefully construct a set of long-term goals, and make strategic use of limited resources to achieve their local vision. Solutions borrowed from other contexts are likely to fail unless carefully adapted to local conditions. What works on open commercial acreage in the suburbs may not work in -- and may harm -- the life of the city.

Growing local businesses

Minneapolis and St. Paul are home to several stores that succeed quite well without trying to emulate retail chains. Loyal to a local customer base, offering value-added service and connected to their surrounding community, these stores more than hold their own. Shops such as El Burrito Mercado, Ingebretsen's Scandinavian Foods/Gifts, Welna Hardware, Nicollet Hardware, Swede Hollow Cafe, food cooperatives such as Mississippi Market, Seward, North

Country and the Wedge, and many others have thrived, some in the midst of areas widely considered untenable by chain operators.

Each of these stores, in fact is expanding. Each has found ways to build capacity in their communities while operating in the black. This is a tougher challenge than chains would take on, yet it can be a highly productive strategy, built upon hard-nosed business experience and not on good will alone. A Minneapolis Community Development Agency (MCDA) loan officer told me, for instance, that some food cooperatives have profit margins per square foot that rival those of "big box" food supermarkets.³ Moreover, local stores and cooperatives hold a stronger base of indigenous credit than do the massive retail outlets, and in turn do more to build local credit capacity. Mid-sized food cooperatives -- at times expansions of those serving lower-income areas -- have become keystones in several community revitalization efforts, at a time when many developers declare the mid-sized "obsolete."

Such urban stores with roots succeed because they have managed to move in both directions simultaneously. Taking advantage of new technologies, state-of-the-art business expertise, and building a regional or global presence, they have managed at the same time to *re-weave* the fabric of community around their stores. They are sinking deeper taproots at the same time they branch out in new directions. This combination seems to be most effective, not only as a commercial strategy, but also as a *community development* strategy.

Beyond the confines of the Market

The stores mentioned above *think beyond the confines of market economics*. Each serves a market, but also sees its market as a community of neighbors, not simply as impersonal consumers. Each store sees itself as a vital center for its community. Each is active to some degree in community improvement efforts around the site of the store. Each hires local youth, and helps neighbors to connect with each other in learning more about the products and services they purchase. Each helps build a broader vision of community. Each advances the long-term sustainability of its neighborhood.

These stores also refuse to do things that are commonly accepted as standard business practice in the age of globalization. None of these stores specializes into a rigidly defined market niche. None considers its customers merely as a source of revenue. None of these considers the issues in their surrounding community as "externalities" left for someone else to address.

In short, each of these stores builds wealth for itself, but also realizes that to survive over the long haul, their business must also serve to build capacity and wealth in the surrounding community. Each builds community connections around its commerce. Some help to set an architectural and design tone at their business node. Some offer cultural festivals. Some provide effective consumer education. All offer gathering points for neighbors. All of these constitute value added that reaps benefits for an entire neighborhood.

What is the public role?

The question these businesses raise for public officials is: what is the role of the city government relative to such activity? Some argue the city should withdraw and allow the mechanisms of the market to work their magic. Others argue the city should actively encourage such businesses to abandon local commercial nodes, in favor of more suburban-style strip malls or even suburban locations. Some advocate subsidy to such urban pioneering firms.

Those who look to unbridled market forces have not reflected on the agony that suddenly unrestricted commerce has wrought on Russia. With little visible or credible public authority, criminal commercial activity is taking hold. Similarly, America is still plagued by great inequities of wealth that solidified under *laissez faire* capitalism a century ago. What Americans consider "free" commerce depends intimately upon a cogent web of public policy.

Those who advocate the suburbanization of city commercial districts ignore the fact that strip malls and big box retail are an artifact of specific public incentive programs, not the natural expression of the "free" market. If specific types of private investment were not subsidized

through tax incentives, including the costs of corporate mergers/consolidation, and investment in new facilities, such large scale operations would not look nearly as attractive. If public dollars did not pay for new water and sewer and fire service without questioning the added costs of large facilities, fewer big boxes would be built. Often tax-increment financing is also the public incentive that makes a big box possible.

Certainly, big boxes have been attractive to developers with access to open land, but their benefit to an area of existing stores is highly questionable. They threaten to displace more economic activity in the locale than they create. For example, many discount houses have helped put family-run pharmacies and groceries out of business. Although developers may argue that big box stores are a "win-win" -- offering reduced retail prices to consumers in return for the profits taken by chain owners, seldom are calculations made that would prove these in fact balance each other. Rarely are the economic, social and human costs of losing local ownership, or of adding new utility and protection services, assessed. Many other types of development offer far greater increase in tax base. Some communities have insisted that if a big box is to be developed, majority ownership should be held by the community.

Subsidize the small?

Finally, while subsidy to small local firms may in fact make them less competitive, proper public incentives can be imagined. Of course, a legitimate public purpose must be served - one solid strategy is to devote public monies to long-term investment in the community, rather than simply viewing these funds as an income source. Carefully crafted incentives may help create lasting structures that promote local investment, community wealth creation, and stronger fabric of community. If, after all, the economic institutions we now subsidize exist because of public incentives, it is at least incumbent upon public policy to honestly understand what is being created through incentive programs. It may be desirable to offer subsidies that *reverse* ill effects of prior subsidy programs.

However, subsidy in itself is not necessarily a long-term answer. What is most important is that a complex web of public policies and private investments be sincerely devoted to building capacity at the local level, and to coordinating the efforts of private players into a coherent vision for a sustainable long-term future. Incentives may become one of the tools of such an effort, but used in isolation they are likely to create market distortions and dependency.

Toward a long-term neighborhood commercial strategy

Crossroads argues that a better approach to public interventions is to engage local residents and public officials in collaborative long-term planning and community mobilization. Incentives should be offered only after a thorough body of research has been performed at selected commercial locales, and with knowledge of the workings of the local economy in that place. The broadest public purpose at the present time is to build structures that promote investment and wealth creation in the low-income communities surrounding specific commercial "nodes" -- that is, the intersection of two commercial streets.

Such efforts should:

- (1) Develop a very long-term (50-100 year) vision for the commercial node and its surrounding community. Essentially, such a process poses the question, "What is good for the community?" Often, this question gets neglected in commercial planning, which frequently focuses simply on the short-term needs of individual businesses, developers, or public officials. The proposed process also poses, "What is the proper mix of stores for this locale?" rather than questioning only whether a specific strip mall or business is useful. Planning should also take surrounding areas into account. Are there sufficient job-generators nearby? Which other locales compete for the business of local residents?
- (2) Connect commercial development with other community concerns. If the employment needs of youth employment needs were considered while

planning a commercial node, there would be fewer crises later, when youth come of age. Siting a school, opening a social service, developing a bus stop, paving a street, constructing townhomes, and opening a cop shop all have important economic consequences. It is the city's role, and the role of local community organizations, to connect these closely to commercial planning.

- (3) Engage local community members of all ages and backgrounds. If community members are active in this process of researching and envisioning the potential for a given commercial node, they are also likely to develop strong loyalty for the stores at the node. New fabric of community can be woven by the planning process that will tend to make the stores themselves stronger.

John McKnight, Director of the Center for Urban Affairs and Policy Research at Northwestern University and a former member of the Kerner Commission on poverty, concludes that *"All the historic evidence indicates that significant development takes place only when local community people are committed to investing themselves and their resources in the effort."* Sparking the strong spirit of local residents will do more to turn the tide than merely improving physical amenities. If neighborhoods thrive, welcome newcomers into their midst and project a sense of command over their future, their sense of power will inspire new home buyers and shop owners to join them and settle in for the long haul. If a lasting vision for community improvement engages the creativity of local residents, encourages collaboration among neighbors, and encourages residents to appreciate each others' talents, the resulting energy will be infectious, helping to inspire both future investment and increased tax base.

- (4) Be based upon thorough compilations of all relevant data and information. Historical trends should be completely understood. Extensive surveys of local residents may prove useful; detailed discussions should certainly be held with local consumers and grassroots organizations. In one sense, we propose *a market study for the community itself*, not simply for a specific business. However, we also argue that such a study should transcend the typical market study, posing questions such as: what are the needs of the people who live in this area? To what extent can they support this node, and to what extent must other shoppers be attracted from elsewhere? How can this node serve as a community gathering point? Who could be attracted to this community by carefully conceived development? How would the interests of newcomers be balanced with the interests of existing residents? What are the physical limitations of site and infrastructure? How do nearby residents want the development to feel? What local identity will be projected?

A close economic analysis of each node's marketing region would point out important trends in demographics, work, and income that could lead to a more sophisticated view of the potential for each individual node. In both the Powderhorn and Camden neighborhoods of Minneapolis, for instance, Crossroads' studies show that the *sole* rising force in employment is *self-employment*.⁴ To the extent this means home-based employment, a different palette of local business opportunities, gathering points, and needs must be filled than is needed to serve residents who commute. For instance, a home-based worker may well need opportunities to walk to change scenery, meet neighbors, and exercise. Local copy stores, access to postal services, low-cost meeting spaces,

along with other support services geared to home-based firms could be developed.

- (5) Begin by assessing the existing assets of the community. Often, professional expertise focuses on the shortcomings of a stressed urban area, or upon the obstacles to development. While it is of course important to keep such limitations in mind, that should be the second step in analysis, as John McKnight so eloquently argues. The first step should be to thoroughly review the assets the community already has, so that development visions can build upon these assets and capacities, rather than undermining them. Needs should be analyzed in the context of the community's capacity to respond, not as a laundry list of deficits.⁵
- (6) Consider how the locale fits into the regional context. The most successful industrial regions in Europe (for example, Baden-Württemberg, Catalonia, Lombardy, Emilia-Romagna and Rhone-Alpes) have clustered together industries to create regional specialties.⁶ A regional textile industry may contract with local home-based seamstresses, button-makers, dyers and shippers who work inside overlapping networks of mutual loyalty. Stronger regional identity both flows from, and informs, regional business relationships. The Twin Cities have important health, financial, technological and printing/publishing industries that could serve as cores to local regional specialties. Often low-income neighborhoods are located in close proximity to such institutional players, giving local residents and businesses a competitive edge.⁷
- (7) Think creatively. At each stage, solid data on local conditions must be meshed with intricate, imaginative reflection that questions habit, challenges received wisdom, and looks with sharp eyes to the long term. Exploration of imagery, creative visualization and artistic expression may be more powerful than written analyses, since imagery is a common language for all humans.

One key to fostering creativity is to involve neighborhood artists in envisioning and implementing a neighborhood's future. Rooted, community-wise artists will not only inspire imaginative visioning by local residents, they will also grasp and express relationships that are still obscure to others. Artists may also devise effective public art and design concepts that help define a locale's sense of place. St. Paul's Hamline-Midway community contemplates a street of locally-produced public art that will express the community's identity -- and at the same time attract more shoppers to its core retail district.

Creativity also involves dogged determination to get down to core issues. For example, in an era in which parking space is at a premium, the fact that so many inner-city residents do not have cars can be seen as an economic *asset* rather than a liability. These are precisely the consumers who could best support the pedestrian-friendly stores many neighborhoods desire. Less demand for parking can also substantially reduce costs to developers as well. Conversely, the large traffic flows that make the west side of Hennepin Avenue in South Minneapolis attractive to store owners would be painfully disruptive in certain neighborhoods. Car counts alone do not tell the story. If a neighborhood can choose to spend \$15,000 to study traffic patterns, or alternatively, \$40,000 to organize walking consumers to shop at local stores, or \$300,000 to set up a mini-van service for local shoppers, which is the better long-term investment for the stability of the city? Methods for making such assessments must be developed.

- (8) Assess and promote local ownership. One obvious question in community building is to learn how many of the businesses at each node are locally-owned or locally-managed. This could be defined on two levels: the owner lives within the market area of the node, or the owner lives in the city. Local owners are more likely to be devoted to building the nearby community, although of course there are marked exceptions.⁸ Public policy should encourage the creation of community-oriented *livelihoods* for local residents, not simply defining *jobs* for them. This may involve offering training opportunities to prospective local entrepreneurs, as Western Bank' of St. Paul's neighborhood development program (WIND) has so effectively done.

Local ownership is clearly key to cycling local money through the neighborhood. Local owners can help each other grow by purchasing goods and services from each other. A community entirely dependent upon national chains would export most all its money out of the community. A neighborhood with a strong multiplier is a more diverse, lasting locale. Mobility of capital may help financial interests, and may offer consumers more choices, but may also undermine the local fabric of community. Today's urban communities need more capital that takes root.

- (9) Assess and strengthen local consumption. If local stores are to build connections with their neighbors, it will be desirable to assess how much of the retail trade of each business involves suppliers or consumers in the local marketing area. This may become one of the most important indicators of success in building a long-term stable commercial node, and could be measured on a regular basis. In Crossroads' early studies, only about 6 percent of sales in urban neighborhoods is devoted to local consumers. Such a low rate means that very little of the money earned in neighborhood stores cycles back into the hands of community residents, where it could build the asset base of the community.⁹

Crossroads' studies show that low-income communities earn enough to support a viable market for businesses that serve local shopping needs. In the five Twin City low-income neighborhoods that have been studied thus far, residents earn a total of \$850 million *each year*, spending \$650 million, or three of every four dollars, for goods and services that cannot be purchased within their communities. Were this substantial stream of money devoted to shopping from locally-owned businesses, more local investment would be built. As it is, this consumer purchasing power builds wealth elsewhere, at the expense of the residents.¹⁰

- (10) Strengthen local credit sources. One core indicator of the balance of production and consumption, as well the inflows and outflows of money, is the strength of local credit sources. A healthy local economy offers home and commercial borrowers a choice of locally-owned lenders who reinvest in the immediate community. Home Mortgage Disclosure Act (HMDA) data offer a highly useful tool in making such assessments. Crossroads' study of lending in Phillips showed that from 1980 to 1990, in the first ten years of the Community Reinvestment Act, the market for loans remained steady at about \$5 million per year, but the number of lenders plummeted from 22 to four as lenders withdrew or consolidated.¹¹

- (11) Include a community organizing and public education component as part of development planning. Since community attitudes strongly affect the

quality of initiatives that can be supported, as well as the relationship of new investment to the surrounding community, economic development is also a process of organizing community resources to support new social relationships. Residents should be comprehensively involved in creating a lasting vision for their own community, and may require the assistance of skilled experts in community organizing and group facilitation to do so. They may also benefit from infusions of more specific technical assistance. Building such capacity locally may itself take a great deal of time. Seward Redesign, one of the more visible and successful community-based developers in Minneapolis, points out the need for a sustained, locally-managed development organization. The role of professional staff is not only to assist residents to frame the community's goals and objectives, but also to act as institutional memory. At times community residents need to be reminded of decisions that were made in prior years, especially as volunteer board membership turns over. Seward Redesign provided an ongoing review of the community's development priorities, so that each board meeting's agenda includes a review of the steps that have already been taken. Each new initiative is then fit closely into the community's own priorities. This works to hold all parties accountable to the resident-developed vision. Public education strategies are also used to show how new development initiatives dovetail with the community vision. Newcomers are thus oriented to the reasons that existing strategies were set, and the consensus regarding the community's direction can be strengthened.

- (12) Plan for the future needs of youth. More than anything else, the needs of young residents to grow up near empowered adults is one of the most compelling reasons to promote a strong policy of local ownership and community wealth creation. If teens get the message that their parents work for someone who has little investment in the community, kids will absorb that sense of powerlessness. If kids on the street can meet owners of businesses, professionals who live and work in the neighborhood, and local factory workers who take time to engage in community affairs, and if the kids learn to be friendly and accountable to a cluster of elders who live near them, many of our sources of despair are reduced. National studies show that most people get jobs through informal connections with their employer.¹² If adults cannot build these informal connections through community networks in their home neighborhood, then neighborhood kids are more likely to be unemployed or disaffected.
- (13) Address incentive systems. As long as we subsidize suburban sprawl with public dollars (moreover in the name of the "free market!"), and do not offer incentives to people to settle in to urban communities, it is unlikely we can have strong urban neighborhoods or commercial nodes.
- (14) Keep in mind the limitations of the private market. Public-private partnerships are important, of course, and planning certain 40,000 sq. ft. developments serving 10,000 shoppers may be advisable, but may not advance city goals. Big boxes have been favored by lenders, but this may be changing and in any case is not in itself a reason to build big boxes. Rather, this suggests there is reason to engage local bankers, planners and developers in helping to create a more lasting vision.
- (15) **Involve ongoing reflection and evaluation.** The Twin Cities are littered with developments that were funded on the basis of claims for investment and job creation that were never evaluated after factory or retail doors opened. It is likely that neighborhood development will be submitted to a higher standard than this. Well-defined indicators of

success toward the community's vision should be devised, and used for years to come to accurately assess the true risks and rewards of development.

Locally based solutions

Key to Crossroads' approach is the concept that decisions should be made at the local level where possible. There is considerable experience and insight to be tapped at this level, and with proper technical assistance, more informed decisions may be made by rooted local decision makers. This further suggests that the main role of the city government is to coordinate and support such node-level work. Clearly the public sector has a crucial role in assuring equality of opportunity and in just allocation of public resources. There may be a need for a public authority to reduce conflict among nodes who may try to attract the same businesses, to establish flexible zoning overlays defined in conversation with local residents, and to promote judicious use of eminent domain to create commercial districts that harmonize with nearby residences and also have long-term sustainability.

Integrating the specific goals of various locales into a comprehensive, city-wide strategy is no easy task, but is certainly within the competencies expected of professional city staff. Leadership at the top is essential, but a new kind of leadership. Coordination will be enhanced if city officials see their role as one of divesting power to strong locales, offering information and convening meetings that allow these empowered locales to coordinate as directly as possible with each other. Top-down initiatives will inhibit such processes.

Nor is there any single recipe for creating lasting neighborhood commercial districts. Each local plan must be closely tailored to the specific assets and conditions present in its own community. Each will reflect the imagination of local residents and civic leaders. Each requires committed support from public and private partners who dedicate investment and resources to making neighborhoods sustainable in the long-term, and who unleash all their creativity to learn the best ways to connect commercial development to that end.

After all, local residents and businesses best understand how wealth may be built in each locale. Professional experts have devoted themselves to extracting wealth for what they consider "higher" purposes.

Endnotes:

¹ Crossroads Resource Center (Minneapolis) has worked since 1972 to promote the growth of regenerative local communities through research, public education, training and technical assistance. Original practical tools include the Neighborhood Income Statement and Balance Sheet, Neighborhood Sustainability Indicators, and Community Resource Inventories. Kenneth A. Meter, President of Crossroads Resource Center, is also a member of the community faculty at Metropolitan State University.

² See George Soros, "The Capitalist Threat," *The Atlantic Monthly*, February, 1997, pp. 45-58.

³ Personal communication, July 29, 1997.

⁴ Kenneth A. Meter, *Powderhorn Neighborhood Income Statement and Balance Sheet (1995)*, and *Camden Community Income Statement and Balance Sheet (1995)*, both published by Crossroads Resource Center. See also: Meter, *Daytons Bluff Neighborhood Income Statement and Balance Sheet (1995)*.

⁵ See John P. Kretzmann and John L. McKnight, *building Communities from the Inside Out: A Path Toward Finding and Mobilizing A Community's Assets*. ACTA Publications (1993).

⁶ Christopher Harvie, *The Rise of Regional Europe*, Routledge (1994).

⁷ Michael E. Porter, "The Competitive Advantage of the Inner City," in *Harvard Business Review*, May-June, 1995, pp. 55-71.

⁸ See The Camden Business Survey, summarized in Kenneth A. Meter, *Camden Community Income Statement and Balance Sheet*, Crossroads Resource Center (1995).

⁹ See The Camden Business Survey, summarized in Kenneth A. Meter, *Camden Community Income Statement and Balance Sheet*, Crossroads Resource Center (1995).

¹⁰ See Kenneth A. Meter, *Daytons Bluff Neighborhood Income Statement and Balance Sheet (1995)*, *Powderhorn Neighborhood Income Statement and Balance Sheet (1995)*, *Camden Community Income Statement and Balance Sheet (1995)*, *Frogtown Neighborhood Income Statement and Balance Sheet (1994)*, *Phillips Neighborhood Income Statement and Balance Sheet (1993)*, all published by Crossroads Resource Center. See also Kenneth A. Meter, "Neighborhood Balance Sheets Assess Local Economies," Working Paper for American Planning Association Mini-Symposium, "Using Indicators to Advance Collaborative Planning in Neighborhoods," October, 1998, available at <www.planning.org>.

¹¹ Kenneth A. Meter, "Behind the Red Line," a special section of *The Alley* (Phillips neighborhood newspaper -- April, 1990), plus "How much do local banks lend in Phillips?" (May, 1990) and "New data shows lenders still avoiding Phillips" (June, 1990). This data covers only banks, and excludes mortgage lenders, since expanded data was not offered for these years. In addition, many neighborhood home are purchased through contracts for deed, frequently unrecorded.

¹² Tom Dewar and David Scheie of Rainbow Research, *Promoting Job Opportunities: Toward a Better Future for Low-Income Children and Families*, Published by Annie E. Casey Foundation (1995).