

# Introducing Information-Led Development to the Field of Community Economic Development

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Madam Chair, and other members of the Committee, thank you for the invitation to testify today about how information gaps that misinform investors and government decision-makers, can be bridged to support new investment and inform public policy decisions that result in stronger, healthier neighborhoods in which to live and do business.

I wish to make three points.

1. The community development field is increasingly looking toward asset-based initiatives in response to local economic challenges and opportunities and therefore needs accurate information to support these new approaches.
2. Social Compact's Neighborhood Market DrillDown is supporting forward-looking investors, public officials and community leaders by using alternative data sources to challenge incomplete counts by the U.S. Census Bureau and to inform and catalyze public and private investment.
3. A new paradigm is emerging in community economic development called "information-led development".

## **Community Development: Moving Towards Asset-Based Approaches**

Private investment plays a more important role now more than ever before in revitalizing underserved, urban communities. Rather than underserved, these communities would be better designated as undervalued, because there are markets there whose value simply has not yet been realized by private investment. This point lies at the heart of a shift that has occurred in community economic development over the past decade.

The field of economic development has moved from a deficit understanding of cities and neighborhoods to an asset-based approach to markets. This was a necessary transition because economic development practitioners could not convince private investment decision makers to put their money into some communities because of the poverty rate, or the recidivism that occurs there. In the past, low-income urban neighborhoods were often perceived through a lens of misinformation, reinforced by the poverty and deficiency data traditionally used to attract government subsidies and federal funds for social service programs. While these depictions attest to social need, they do little to highlight neighborhood strengths and economic opportunity, begging the question: How many

individuals or communities have been able to build sustainable wealth through qualifying for federal subsidies? The prevalent focus on neighborhood deficiencies rather than market strengths and opportunities was compounded by an absence of effective inner-city market analysis models. Today, many in the field have come to believe – and have demonstrated – that if you highlight neighborhood assets, the market potential and purchasing power of a community, then you can catalyze and organize new investment.

**Accurate Information can Change the Lens on Undervalued Communities**

In many cases, investors have found themselves contributing to community development values such as individual and community wealth building, job creation and small business development. In order to achieve these conditions, community and economic development practitioners must first quantify and demonstrate investment opportunity. This is not merely a sentimental notion of “boy, it’d be great to have a store here,” but rather, quantifying where an opportunity exists to make a return on investment. The challenge is to sift through the available information to develop a firm knowledge about the market potential of communities that require, and can support, private investment because they are stronger and more stable than generally understood.

There is a tremendous amount of historical and contemporary data at our disposal today. Yet there remains a lack of good information that can be used to address the wide range of challenges urban development practitioners are facing. Accurate information is particularly crucial when making both public and private investment decisions. Below is a brief example of where good information can make a difference.

Table 1.

Community A		Community B	
Population	107,000	Population	122,000
Avg HH Inc	\$51,000	Avg HH Inc	\$62,000
		Avg HH Inc (HMDA)	\$120,000
Neighborhood Income	\$2.5 Billion	Neighborhood Income	\$3.6 Billion
		Informal Economy	\$248 Million
Homeownership (Unit)	36%	Homeownership (Bldg)	73%
Median Home Value	\$149,000	Median Home Sale Price	\$378,000
Media excessively highlights violent crime in the area		Experienced significant decline in reported incidents of property and violent crime in recent years	
<i>Source: U.S. Census Bureau, 2000</i>		<i>Source: Washington, DC DrillDown, 2007</i>	

Table 1 depicts two community profiles. Developers, community developers, and investors inevitably have to choose between two sites. Community A has a smaller population by about 15,000 people. Community B’s average household income is 24% higher, and the average income of new home buyers in the area is \$120,000, more than double the Community A average. Community A is victimized by the way the media portrays incidents of crime in the neighborhood, while Community B sorted through community crime statistics to demonstrate trends of decline in property and violent crimes. The problem is

that we have to make a decision between Community A and Community B, and when put into that position, we will always choose Community B.

In fact, Community A and Community B are one and the same. They are both composites of eight neighborhoods in Washington, DC that, if portrayed solely by census data and the media, are seen exclusively through the lens of Community A. Portrayed through a combination of alternative data sets that might include tax assessment records, credit bureau records, building permits, utility usage data and actual crime statistics, these same neighborhoods appear very differently through the lens of Community B. This profile suggests a possible population undercount and neighborhood income that has not been captured by traditional market analytics, while providing indicators of stability that can help the city and community identify sites for potential investment.

### **Census Undercounts Contribute to Undervaluing of Neighborhoods**

The census is the best demographic database we have in the United States, but faces significant challenges with respect to underserved, urban America. It has widely been acknowledged over the past several years, that the U.S. Census Bureau undercounts poor and minority neighborhoods at a higher rate than their wealthier counterparts. Census and census-generated analytics are the information sets most commonly used by local government, investment and policy decision-makers, and therefore strongly influence urban development strategies and economic activity, public policy decisions and funding, social service provision, and political representation at different levels of government.

In 2006 alone, the U.S. Census Bureau accepted 38 challenges to its 2005 population estimates.<sup>1</sup> Washington, DC's 2006 challenge resulted in a 31,000-person boost to the Census Bureau's 2005 population estimates for the District.<sup>2</sup> Cincinnati, OH challenged the census as well, and was awarded 22,000 people back to its population estimate the same year.<sup>3</sup> More recently, the City of Detroit saw a 47,000 person population bump to its 2006 estimate following a recent census challenge.<sup>4</sup> For cities like Cincinnati, Detroit, and many others, the results of a successful census challenge are not just a matter of more accurate counts, but are also about shifting current misperceptions away from perceived market downturns toward potential for growth and business investment.

In a 1999 study of 34 cities across the country, the U.S. Conference of Mayors estimated that for every person missed by the census, cities lost \$1,200 in federal and state funding per person per year; they estimated the future loss for these cities, assuming the same rate of undercount for the 2000 census, at \$2,200 a year.<sup>5</sup> PriceWaterhouseCoopers released a 2000 report commissioned by the U.S. Census Monitoring Board that placed the estimate even higher: 169 metropolitan areas in the nation's 58 largest counties would lose roughly \$3,300

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<sup>1</sup> El Nasser, Haya. (2006). Further into decade, more challenge Census estimates. *USA Today*.

<sup>2</sup> Montgomery, Lori and Silverman, Elissa. (2006). Population Revision 'Big Deal' for D.C. *The Washington Post*

<sup>3</sup> Klepal, Dan and Korte, Gregory. (2006). City shrinking? Not really. *Cincinnati Enquirer*.

<sup>4</sup> Josar, David. (2007). Detroit gets census boost. *The Detroit News*.

<sup>5</sup> U.S. Conference of Mayors. (1999). Fiscal Impact of the Census Undercount on cities: A 34-City Survey.

per undercounted person.<sup>6</sup> These estimates demonstrate how misinformation can become a capital barrier.

Despite varying reports on the number or proportion of the population undercounted in low-income urban areas, the fact is that the undercount contributes to the continued undervaluing of the economic potential of urban communities, many of them undervalued, and compounds the misunderstandings surrounding these neighborhoods and their viability as sites for future investment and revitalization. Retailers, financial institutions and other investors may not see the positive market forces at work in many inner-city neighborhoods, making it difficult to attract national, regional, and even local retail and services to these communities. As a result, neighborhood residents are underserved by retail and services and their neighborhoods are continuously overlooked as areas for potential investment.

### **Neighborhood Market DrillDown: Market Information, Informing Investment**

How can we make important investment decisions without accurate information? The private sector, cities and others have spent enormous amounts of money developing models that can project risk and capital evaluation of new developments. But what is often forgotten is the actual reason we invest in these tools: the importance of using data to *inform* people. It is the informing of the people, not solely the results of models, that becomes important. Born out of a rigorous effort to build an alternative to the negative perceptions of low and moderate income urban communities, Social Compact's Neighborhood Market DrillDown analyzes data to develop indicators that can inform communities, cities, retailers, banks and other investors with a more accurate picture of a neighborhood.

To date, Social Compact has conducted its Neighborhood Market DrillDown analysis in eleven cities and over 200 neighborhoods. Cumulatively, we have found 850,000 more people than documented by the 2000 census and over \$20 billion in unrecognized economic income. That's a market. That's a market that's important for the Comptroller of the Currency, a market that's important for the Federal Reserve System, that's a market that we need to know how to map out so we may approach those communities understanding the kinds of investments that they would like for us to make and that would meet the needs of neighborhood residents.

Social Compact's intention is to integrate diverse national and local datasets to produce information that will enable communities to make decisions for themselves and participate in the decision making process with outside investors. Social Compact aims to assist local leadership to validate what is often their own intuitive understanding of their own neighborhoods and, in turn, to market this information to the appropriate retailers, developers, banks and others. Social Compact's intention is to help cities find better ways to produce information to guide the appropriate pricing of public incentives. Social Compact converts alternative data sources into information that is sensitized, tailored and useful to a community of users, and useful to a community of investors, so that they may make better investment and public policy decisions. What do you need to know about a market to make an appropriate, informed public or private investment in that identified undervalued, urban

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<sup>6</sup> PriceWaterhouseCoopers. (2000).Effect of Census 2000 Undercount on Federal Funding to States and Local Areas, 2002-2012. *Executive Summary*.

community, is a question that will continually evolve. This is what a group of forward-looking development practitioners mean by “information led development.”

Following are three brief case examples of how alternative market data can be used by cities and communities to inform comprehensive economic development.

***CASE EXAMPLE: DETROIT***

Social Compact is working with the City of Detroit’s lead business attraction agency, the Detroit Economic Growth Corporation (DEGC), to implement information-led retail attraction and retention strategies in Detroit’s communities and commercial corridors. The 2007 DrillDown analysis provided economic indicators of market size, strength and stability for the entire city of Detroit and individual profiles of 54 neighborhoods defined by the 2004 Master Plan, developed to recognize established community boundaries and service areas of various community organizations in Detroit. The published DrillDown report provided highlights from the analysis, depicting neighborhoods with evidence of significant market potential.

Key findings from the Detroit DrillDown included:

- Detroit's current population is estimated at 933,043 – 62,000 more people than the recent 2006 Census estimates.
- Detroit neighborhoods are higher density markets when compared to the Detroit–Warren–Livonia Metropolitan Statistical Area (MSA) as a whole. Population density in the city is six times higher than the MSA.
- The city's average household income is 17% higher than the Census 2000 estimate
- Aggregate income in the city, at \$15.8 billion, is \$2 billion more than Census 2000 estimates
- Detroit residents spend over \$1.7 billion – more than \$1 out of every \$3 spent – on retail purchases beyond City limits; \$291 million is spent on apparel alone.
- Unmet demand for full service grocers in Detroit could support 500,000 square foot of retail space.
- Aggregate income in the Central Business District is estimated at 75% above Census 2000 reported income
- Income density in Indian Village, one of Detroit's central city neighborhoods, is more than twice the city average; at \$444,000 per acre, comparing favorably with surrounding areas such as Birmingham (\$425K/acre) and Grosse Point (\$442K/acre).
- Income density is above \$300K/acre in Rosedale, Denby and Lower East Central.

DEGC is currently working to reposition its retail attraction efforts to focus on strategic neighborhoods, including those in Greater Downtown, and demonstrating existing market strengths in order to encourage high quality retail development in Detroit. The DrillDown market study represents the beginning of a multi-year program designed to equip Detroit with information that illuminates the nature of the market potential and opportunity that exists in the City's neighborhoods. As a new information source with which to attract investment to the city, Social Compact's DrillDown helps ensure that these retail investment efforts will appropriately capture market opportunities where conventional analytic tools may have undervalued the strengths of Detroit's neighborhoods. As the program unfolds, the information available to investors will improve, becoming richer and more nuanced.

One of the most interesting things the DrillDown analysis revealed in Detroit was the lack of grocery providers in the City; not a single national or regional grocer can be found within city limits, home to almost one million people. This is not just a matter of convenience, not just a matter of it would be nice to have a place closer to buy my milk, it exemplifies a public policy imperative. Recent studies of Chicago and Detroit have shown correlations between rates of obesity and diabetes and the saturation of fast food restaurants and lack of access to full service grocers.<sup>7,8</sup> Findings like these make it apparent that a significant proportion of the population in Detroit has been condemned to poor public health outcomes. There exists a public policy imperative to address this problem.

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<sup>7</sup> Gallagher, M. (2006). Examining the Impact of Food Deserts on Public Health in Chicago. copyright 2007 Mari Gallagher Research & Consulting Group.

<sup>8</sup> Gallagher, M. (2007). Examining the Impact of Food Deserts on Public Health in Detroit. copyright 2007 Mari Gallagher Research & Consulting Group.

The City of Detroit closed out 2007 by forming a task force designed to do that very thing. Comprised of over 40 members representing local government and the business community, the Detroit Fresh Food Access Initiative is charged with providing policy recommendations to improve Detroit's grocery market. Aside from confirming what many in Detroit's business community already intuitively knew, following the departure of the city's last large chain grocer (Farmer Jack), Social Compact's DrillDown revealed that there is significant market demand for such retail. Social Compact is now working with the task force to identify sites where the city may target its grocery attraction strategies. In addition, DrillDown data is being integrated into the Mayor's NEXT Detroit initiative, aimed at deploying a series of revitalization initiatives across strategic Detroit neighborhoods.

### ***CASE EXAMPLE: MIAMI***

With support from the John S. and James L. Knight Foundation, Washington Mutual, Citi Foundation, and First American CoreLogic, Social Compact applied its DrillDown analysis to five neighborhoods in the City of Miami. Working closely with Mayor Manuel Diaz, City Commissioner Michelle Spence Jones, local colleges and universities and other community stakeholders, the Miami DrillDown focused on identifying areas that are significantly underserved in retail, particularly with regard to grocery stores and financial services. The 2007 Miami DrillDown report provided market profiles of five neighborhoods in the northern section of the city: Allapatah; Little Haiti; Liberty City; Overtown; and Wynwood—Edgewater.

In addition to the DrillDown market analysis, Social Compact collaborated with a coalition of research organizations to implement a survey to understand the living conditions and needs of residents in four of the five DrillDown neighborhoods: Liberty City, Little Haiti, Overtown, and Wynwood-Edgewater. The project contacted approximately 2,000 inhabitants regarding 6 broad categories: education, housing, senior citizen issues, business and commerce, single mothers' concerns, and quality of life. Survey results complemented the 2007 DrillDown findings by providing further insight regarding consumer practices and financial behavior.

Key findings from the Miami DrillDown included:

- A total study area population of 171,400 – 51,000 more residents than Census 2000 (42%) and 48,200 more than 2006 census trend projection (39%).
- \$1.7 billion in aggregate buying power, exceeding census trend projections by \$600 million (52%)
- An informal economy worth more than \$184 million, comprising over 11% of the total study area economy.
- An average household income of \$36,600 – \$8,300 higher than 2006 census trend projections, at \$28,300 (29%)
- A median home sale value of \$177,000, 42% higher than recent census trend projections.
- A significant proportion (40%) of study area residents are without a documented credit history. These findings are supported by survey results from four of the five study area neighborhoods in which over 70% of individuals surveyed in each

neighborhood demonstrated a perceived need for banking services in their communities

- The DrillDown documented the greatest number of nontraditional financial institutions (pawnshops, payday lenders and check cashers) in Wynwood/Edgewater; also where 87% of surveyed individuals reported making bill payments in cash, money orders and/or cashier's checks.

One of the more interesting findings from the Miami DrillDown is the number of neighborhood residents currently without a credit history or traditional banking relationship. In many cities, living without a credit record can impact how much one pays for a utility deposit, automobile insurance rates, and the ability to rent an apartment or procure employment. This means there is a potential poverty tax applied to these families who do not have credit records, who are "thin file" families because they are not accessing traditional financial services and are living in the margins of the financial mainstream.

Miami DrillDown data is being used to inform a number of different initiatives throughout the city, from neighborhood awareness and community development to small business development. The City Commissioner relied on 2007 DrillDown data to demonstrate need for five new projects, one in each DrillDown neighborhood, dedicated to the development and enhancement of commercial corridors, business attraction, sidewalk improvement, and redevelopment of vacant lots, which she plans to implement during her time in office. DrillDown data will also be integrated into a local campaign to portray a series of indicators for neighborhoods throughout Miami-Dade County. The Miami Herald has also seized an opportunity, through the release of the 2007 DrillDown report, to generate positive attention and media coverage for the five study area neighborhoods.

Mayor Diaz and the City of Miami's Economic Development Department are also using the data aggressively to bring necessary services to the most underserved areas. For example, the City has currently entered into negotiations with two major grocers, and plans to work in collaboration with the Human Services Coalition, Washington Mutual, and the Local Initiatives Support Corporation (LISC) to develop a comprehensive small business development pilot study. Finally, DrillDown data will be used by a local developer to inform a mix-use, mixed-income development project two of the DrillDown neighborhoods and surrounding areas.

#### ***CASE EXAMPLE: WASHINGTON, DC***

With support from the Citi Foundation and First American CoreLogic and working in collaboration with the District of Columbia Office of Planning, the Office of the Chief Technology Officer, the Office of the Deputy Mayor of Economic Development, and the Washington, DC Economic Partnership, Social Compact returned to the District in 2007 to apply its DrillDown analysis citywide.

The DrillDown analysis identified neighborhoods where the data suggested a significant undercount of population and income: Shaw/Howard University; Shaw/Logan Circle; Chinatown/Mt. Vernon; Greater Union Station; Southwest/Waterfront; Near Southeast/Navy Yard; Anacostia/Fairlawn; and Anacostia/Fairfax.



Key findings from the Washington, DC DrillDown include:

- The 2007 DrillDown estimates the District population at 603,000; 31,000 people more than reported in the 2000 census.
- Population density in District neighborhoods, 15.4 persons per acre, compares favorably with the greater Washington metro area where density is estimated at 1.4 persons per acre. Shaw/Logan Circle is estimated to have the highest population density of over 50 persons per acre.
- Unrecognized income is estimated to contribute an additional \$1 billion to the District's total economy.
- The DrillDown estimates over \$1 billion is spent outside the District on retail purchases, signaling sizable unmet retail demand in many District neighborhoods.
- Furthermore, the DrillDown estimates in excess of \$176 million in grocery leakage, meaning residents spend millions of dollars outside the District on grocery purchases alone.

In addition to the citywide DrillDown analysis, Social Compact worked with the District Office of Planning and the Washington DC Economic Partnership to conduct an in-depth consumer expenditure survey in four underserved neighborhoods (Benning Road/Minnesota Avenue, Adams Morgan, Petworth and Pennsylvania Avenue/Southeast). Led by Social Compact and with support from American University students, the project aimed to contact approximately 1,800 residents. Insufficient resources, time constraints and residents' unwillingness to participate in the survey limited the number of responses. In spite of said limitations, the in-depth nature of the survey questionnaire revealed trends that provided a general sense of consumer patterns in the areas under investigation.

Social Compact is currently working with the Office of Planning and the city's retail attraction team to provide alternative market data for sites throughout the city targeted for retail development and other economic development initiatives. The citywide analysis allows Social Compact to aggregate its neighborhood indicators to provide profiles for targeted sites and corridors anywhere in the District.

### **Information-Led Development**

People often wonder – why did the grocery store fail? Or why did the bank close? Every time a store fails in the urban core, the excuse that immediately follows is because the market could not support it. This is too simple an answer to be acceptable. Stores fail for a whole host of reasons. They fail because of operational challenges; they fail because of management lapses and land use changes. There has been a complete lack of investigation into how we as a nation understand urban markets, how we value these markets and how we invest in these markets. We, as economic development practitioners, need to study how local markets and individual actors operate and continue to expand our work in investigating and developing new tools to help us address these challenges. If we wait for the next large, federal program to come along to support and build upon the assets we're finding in these urban markets, we're going to have to wait a very long time.

If we learn that there's a public policy imperative and a private sector opportunity for the data gathering, organization and dissemination processes to be improved, then that is an

issue of value. If we learn there's a public policy imperative and a private sector opportunity to have that data transformed into information that becomes a foundation for decision making, this will culminate in a "data to information to knowledge" process that will enable communities, cities and private investors to construct an investment climate in America's undervalued urban communities that will not only support a return on that new investment, but will also create new jobs, stabilize communities, and build wealth. This is another way to look at community development – a better and more informed way; a movement built on accurate information and grounded in knowledge.

The aforementioned case examples demonstrate how information led development can provide a public policy framework for the business investment climate. Whether it be access to fresh foods or bringing marginalized communities into the financial mainstream, forming policy interventions and investment decisions based on accurate information can result in targeted development initiatives that better meet the needs of current and future residents.

Let's make the phrase "return to the city" or "the comeback city" mean more than just the opportunity to build new for a new population. Let's let it mean that there's an investment climate for new residents and new businesses as well as the foundation of an existing market for goods and services to support the current residents. Let's let it mean investment in the human capital of those who, for whatever reason, whether it's by choice or lack of choice, have stayed in their communities, sent their kids to the local schools, attended the local house of prayer and weathered the storm.

If we, as community and economic development practitioners, don't build the bridges to help improve a local grocery notorious for selling outdated produce and meat; if we don't help build new assets for low income communities; if we don't attract investment to redevelop a blighted shopping center; if we don't connect CDCs, faith-based institutions and other community-based organizations in cross-sector partnerships; if we don't match residents' aspirations and visions for their communities to the opportunities we in the field are envisioning, we will see only more of the same churning we have seen in most of our cities in the past ten years; defined by the worst aspects of gentrification. Let us instead bring new energy and new investment into our nation's urban communities to build on and support what is already there.

Information led development is a movement to build a larger and more diverse community that uses density as its rationale and urbanity as its palette. A movement comprised of those who believe in using accurate information to guide public policy and private investment. If we, as a field, do that together, we will be catalytic agents in all of our communities, for all of our residents.