The Brookings Urban Markets Initiative: Using Information to Drive Change

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Urban residents are more likely than their suburban counterparts to be underserved by retail services. The implications for urban residents and urban communities are far reaching. They spend more time and money traveling to access goods and retail services that tend to be more plentiful and less expensive in suburban markets. Recent research has shown that the costs of the basics—such as food, clothing, and even insurance—are often higher for low- to moderate-income residents. In other words, it’s expensive to be poor. Further exacerbating the situation, many of the services that tend to locate in urban markets push residents further outside the economic mainstream with payday lenders in place of retail banks and convenience stores and fast-food outlets replacing grocery stores.

Appropriate access to goods and retail services must be a part of any agenda to create healthy communities. This article outlines the role of information as a critical part of the framework for urban retail success benefiting residents, communities, and the private sector. It points to some successes, highlights some efforts currently under way to address information gaps, and provides direction for future efforts.

The Pyramid of Retail Success

Access to goods and retail services has been primarily in the hands of the private sector. Therefore, the levers for systemic change in this area are the principal investors—retailers, developers, banks, and venture capitalists. The Brookings Institution Urban Market Initiative recently completed an analysis of successful retail investment in urban communities from this perspective. The research hits on three core findings:

1. The corporate perspective on urban markets must be properly aligned with true market realities. Retail investment in urban areas, or lack thereof, flows from the corporate strategy. If that strategy cannot adjust to market realities, then the trajectory of all decisions is misaligned.

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3 For the purpose of this article, banks are considered as sources of capital. The retail location of banks is included in the perspective of retailers.
2. The right data, analytic methods, and tools that capture true urban market purchasing potential must be used by private-sector investors. The lack of goods and retail services in some urban markets is due to imperfect information, not absence of a viable market. These information gaps occur when information on human, economic, and physical assets is not available.4

3. Better information and analytic tools can facilitate private-sector investment, but some urban communities may never be “market ready” without some help from the public and nonprofit sectors.5

Beginning with the Right Decision-making Frame

For some retailers, making an investment decision requires a different perspective, one that enables a more accurate assessment of a neighborhood’s economic strengths and weaknesses. This different perspective—a different frame of reference—is one of the most critical and often ignored steps in the decision-making process. Often the frames that guide analysis in urban markets are relics of the past guided by assumptions and preconceptions that misdirect the decision process.

Sometimes retailers are pushed to broaden their decision-making frame by an imperative to grow. In 1995, Old Navy had more than 3,000 stores and was looking for new areas in which to expand. With comparable store sales margins shrinking, the company developed a “diversity initiative.” This effort, pioneered by Mickey Drexler of Old Navy, targeted new and alternative markets. The objective was to explore whether urban stores could provide a big increase in sales for the 3,000-store company overall. The initiative was an opportunity to explore the possibility of serving customers who traveled across town just to shop.

After reviewing the leading research on urban buying power, the Old Navy team traveled around the country working with its local real estate crews to identify urban opportunities.6 The key criteria were simple, but they clearly articulated the company understanding of how to evaluate urban markets: no national retailers present, location in a core city area, and a diverse customer base. The search identified 100 sites that fit the criteria in formerly neglected neighborhoods across the country, such as Chicago’s working-class neighborhood of Austin. The team estimated that this new store represented a $7 million urban sales growth opportunity for the Old Navy company.

4 Amy Helling and David Sawicki, “Race and Residential Accessibility to Shopping and Services,” Housing Policy Debate 14 (1 and 2) (2003): 69–101. This study systematically explores the impact of different market barriers to explain the low level of access to retail and shopping opportunities in inner city, minority neighborhoods.


6 Old Navy relied on Initiative for a Competitive Inner City/Harvard studies of retail in inner cities, the International Council of Shopping Centers (ISCS) data on retail properties, and the Business for Social Responsibility/ICSC report on purchasing power.
Local entrepreneurs have one major advantage over large national retailers: they have better local knowledge and start with a broader frame. For example, Princess Jenkins wanted to open a women’s wear store in her Harlem neighborhood. She knew from personal experience, not reams of demographic data, that the area was underserved for women’s wear. “Women came into my building every night with Bloomingdale’s bags,” Jenkins said of her neighbors. “They had the money; they just couldn’t spend it in Harlem.” As a part of the community fabric, Ms. Jenkins understood the market realities and potential of her community. As a small-business woman, she had enough local knowledge and sufficient access to capital to invest in her community.\(^7\) The challenge for the local entrepreneur is to get other investors interested in investing their idea so they can grow. Doing that without data, however, is almost impossible.

Some investors get comfortable with urban markets by forming partnerships the way Starbucks Coffee has done by creating a joint venture with Johnson Development Corporation. Vice President of Starbucks’ Store Development Cydnie Horwat says, “Our Urban Coffee Opportunities joint venture has essentially shown that Starbucks can penetrate demographically diverse neighborhoods in underserved communities, such as our store in Harlem, which is not something that we had previously looked at.”\(^8\)

Changing the frame for decision making is about changing the perception of corporate executives to dispel incorrect assumptions and preconceptions about urban markets realities. Sometimes this understanding is buried within corporations in the heads of lower-level employees. Banking offers a great example of this phenomenon. While CRA-motivated bankers understand the dynamics of urban markets, this knowledge often is not translated throughout the bank. At Wells Fargo, sharing information across the bank departments was critical to changing the frame. By inserting a couple of questions in the overall loan processing system of the bank to flag potential community development deals, the company was able to identify many successful investments from the commercial side of the bank that qualified as community development activities.

**Gathering Intelligence**

Framing is, in essence, asking the right questions. Getting to the answers to those questions is achieved through a process known as the information cycle.\(^9\) Starting with raw data, an analyst adds value to create pieces of information that together “tell a story.” Once value-added information is created, a decision maker or investor provides their own insights and cognitive knowledge of the situation to turn that information into actionable knowledge. It is only at this step that data can enable an investment decision.

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7 Lee and Sabety eds., “Retailers Operating at a Profit.”
In a perfect world with perfect information, each link on this information cycle transfers the full information value and there is no leakage. Yet in reality, there are many information gaps that obscure the value of urban communities as intelligence is gathered for decision making. Many urban neighborhoods are “poor information” areas, with a dearth of accurate data. In many urban markets, for example, there are undercounts of population due to overcrowding of housing, unrecognized division of housing units, and unauthorized residents, among other factors, that come with high-density areas.

Healthy urban communities have a robust investment climate, a vibrant labor market and provide their residents with strong connections to the economic mainstream.

Other data are unmeasured because they are part of the informal economy. While for-profit information companies have added to federal data to help create small area data profiles, the models rely on broad assumptions that may not accurately reflect the purchasing patterns of low- and moderate-income consumers living in urban neighborhoods. There are various efforts under way to fill and bridge these information gaps to measure the viability of a market, a project, or a loan.

**New Data and Information**

With the advent of the Internet as a distribution point for information and federal efforts to disseminate data, at first glance the data required to inform location investment decisions appear to be readily available. Yet, investors are constantly searching for more accurate data that, in custom models, will provide greater predictability about the business. Typically these models combine U.S.Census and Bureau of Labor Statistics data, company transactional data, and commercial segmentation models that divide a market into distinct subsets (segments) that behave in the same way or have similar needs.10

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The foundation of the private-sector demographic data used for retail decisions is the U.S. Census Bureau. Historically, comparable data on communities and neighborhoods across the country were gathered once every ten years by the Census. This lack of timely, comparable data on small areas made it difficult to capture the demographic and economic impacts in dense and rapidly changing neighborhoods like those that characterize urban communities. Recently, however, the Census has developed innovative methods for collecting small area socioeconomic data to fill information gaps. The American Community Survey (ACS) provides robust annual neighborhood data on demographic and housing characteristics. The Census’ Local Employment Dynamics (LED) partnership is another emerging data tool that could have tremendous implications for market actors to better understand the local economy.

Even with these improvements, however, the U.S. Census data will not solve all of the information gaps that obscure market realities in urban communities. The Census has financial, operational, and regulatory constraints that keep it from providing all the data that are necessary. Therefore, additional data sets are required to better understand the traditional indicators of retail potential—household counts, household and disposable income, and market competition.

Social Compact has developed the DrillDown to focus specifically on this issue. The DrillDown market analysis is an indirect census that counts the population and the number of housing units using multiple data sets from public and private sources to build real-time market profiles of low-income areas. The DrillDown data derive more precise measures of households, household size, income, local residential investment, and daytime populations. The number of households is critical to any retail analysis. Building on an accurate count derived through the analysis of traditional data, along with other sources such as anonymous credit bureau data utility data, local government data sets like property value data and property crime, and business-license data form the basis of the DrillDown approach. This new and comprehensive analysis results in better indicators of market strength, market stability, and market potential.

One of the serious misunderstandings of the urban emerging domestic market is a lack of understanding of the informal economy. The informal economy runs on cash transactions that are, almost by definition, uncounted. Therefore, measuring this economy relies on the use of proxy variables that can approximate the actual economic activity in a low-income

11 American Community Survey Data will be available on all communities in 2010. Data on communities over 60,000 residents will become available in 2006.
12 This application joins Census data with wage and employment data from state administrative records to provide information on the local labor market, such as employment, job creation, and earnings by industry, age and sex. More information is available at http://leh.dsd.census.gov/led/led/led.html.
neighborhood. One neighborhood analysis uses eight proxies derived from a combination of publicly and privately available data, including:

- Percentage of households with a total income of less than $30,000
- Ratio of household expenditures to income
- Percentage of households with no banking relationships or credit histories
- Percentage of utility payments made in cash
- The prevalence of check-cashing operations per acre in the profiled neighborhood
- The prevalence of check-cashing operations per household in the profiled neighborhood
- Modeled versus actual housing costs
- Percentage of the neighborhood’s population that is foreign-born

Supplementing these proxies with survey data will yield a powerful measure of this important component of urban neighborhood market activity. To date, this work has identified $4.4 billion of unrecorded purchasing power in more than 100 urban neighborhoods across the county.

LISC MetroEdge pioneered new methodology to understand the viability of urban markets. Traditional measures of retail trade potential are based on four major datasets: (1) the Census of Retail Trade (CRT) conducted every five years by industry types, (2) the Monthly & Annual Surveys of Retail Trade data from the U.S. Census, (3) current-year demographic estimates, and (4) Global Insights’ current-year national retail sales forecast. Demographic characteristics are used to develop regression models for 12 separate retail categories as well as total retail sales for 76 geographic regions.

The results of the LISC MetroEdge retail scan bring to bear robust data that incorporate local market nuances that would be missed in a national-level analysis. MetroEdge adds to an analysis of retail trade potential for urban areas, retail-attractiveness variables such as population change, middle-class concentration, residential building permits issued (absolute numbers and trends), residential loans for housing improvements (absolute numbers and trends), and crime data. These variables of retail attractiveness rely heavily on local data to supplement the national data used by many retailers and brokers. Housing trends are confirmed using Home Mortgage Disclosure Act (HMDA) data and building-permit data are obtained from the city. MetroEdge uses actual crime activity data as opposed to national

15 Important work undertaken by the Economic Roundtable in Los Angeles to identify the size of the informal economic labor market, and international examples in South Africa, India and Germany among others will be critical to furthering methods to define informal economic activity in local markets in the United States to support appropriate policy interventions.

16 Chicago, Cleveland, Houston, Jacksonville, New York City, Oakland, Santa Ana, and Washington, DC Drill-Down Analysis.
crime models that make assumptions about criminal activity based on demographic characteristics of neighborhoods. MetroEdge also employs focus groups to determine neighborhood retail market demand. Based on these techniques, an analysis of Chicago found that two of every three dollars of retail spending were spent outside the city.17

Innovative data and methods—whether developed by the public sector or through leaders such as Social Compact, Institute for a Competitive Inner City, or MetroEdge—have demonstrated the value that predictive information plays in the marketplace, as well as the sources of bias in that information. This need for greater predictability is accentuated as investors try to understand new urban markets. In the mainstream market, data are available to enable benchmarking, and the creation of different asset markets. In urban markets, however, gaps remain in benchmarking performance and therefore, investors and capital providers are less inclined to deploy capital.18

New data can provide benchmarks to understand which investments outperform and which underperform. For banks, information is needed on past loan performance, default ratios, charge-offs, and recoveries by types of assets to help inform risk assessments. For equity investors, historic operating data to quantify the future parameters of performance are needed to maximize return on investment and manage their development efforts effectively. Some of the most valuable data in this realm would provide attributes and variables created through the aggregation of actual transactional or performance data provided by a large number of competitors. These data must develop out of a shared need for affordable information that can feed into customized models for risk analysis.

These factors are the concept behind Urban Retail Performance Metrics (RPM).19 The objective is to reduce information asymmetry for investors, governments, and lenders. The chief benefits of these data are that they can dramatically narrow the information gap on urban commercial neighborhoods, and deliver the data in metrics that facilitate prudent and precise decision-making in the marketplace while lowering transaction costs.


18 The Urban Markets Initiative, “Maximizing The Returns Of Urban Retail And Commercial Development Using Advances In Information Theory, Modeling Simulation and Decision Support Tools event transcript (March 2005).

19 The concept for Urban RPM originated from discussions at the Urban Markets Initiative Roundtable entitled “Maximizing the Returns of Urban Retail and Commercial Development Using Advances In Information Theory, Modeling Simulation and Decision Support Tools.” Charles Tansey of NeighborWorks America, as a former banker, believed this data could be used to better understand community development. Robert Haslach conceived of the data being gathered as a consortium of companies from his previous experience at Claritas, and Alyssa Lee of the Urban Markets Initiative conceived the use of a neighborhood types as a way to both privatize the data and to expand the application to communities that were currently underserved. In the past two years we have tested feasibility and tweaked this concept, and are now prepared to bring it to fruition.
As with credit scoring for individuals—which has dramatically expanded access to mortgage capital for low-income homebuyers—it is likely that many more urban neighborhoods will be seen as viable for development after considering these data. Doing this will produce new opportunities for communities while potentially reducing the need for subsidy. While this concept is not new, its application to urban markets and retail and commercial development will be. Focused work on these new types of data is an important future direction for both primary investors and lenders, and for the potential for the development of a secondary market for these types of loans.

The Role of the Public Sector

Even with the best data and models, there is much work between the retailer’s decision to locate in an urban market and the retailer opening the store. As the stewards of its community’s assets, a local government has an important role to play in making an investment decision a reality.

One of the most significant barriers to development identified in the Brookings Institution Urban Markets Initiative roundtable on retail and commercial development was the disconnect between the long time period that cities need to evaluate a project and the short period corporations require to get a project up and running. Local governments traditionally plan for the economic and physical development of their cities over a five-, ten-, and sometimes thirty-year time horizon. Return on investment in economic development incentives typically focuses on a ten-year time frame. Because many departments within local government are typically involved in a project, any coordination hurdles must be overcome.
addition, there are necessary opportunities for citizen participation, planning commission input and approval, and city council involvement. While this coordination process within a local government may make sense, it does not square with the time frame of the retailer.

Retailers expect a store to mature to its maximum potential within two to three years of its conception. The business process is designed to expedite store location and development. Real estate professionals within retail corporations are frequently given incentives to turn a store from a developing enterprise into a revenue-producing one as quickly as possible. As one retail real estate professional noted, every day that a project spends in development is one more day the store is not generating revenue. Thus “speed to market” is a critical issue for the retailer.

Speed to market is enhanced in traditional suburban development where there is a clear site, clear of environmental concerns, with the proper zoning in place. Urban markets are typically characterized by redevelopment of an existing shell within the context of a neighborhood. Redevelopment of prime locations, such as corner lots, coincides with environmentally damaging previous uses (a gasoline station, for example).

The appropriate zoning may be in place to allow retail uses in urban areas, but it may not have been adjusted to reflect the current realities, such as the need for lower parking ratios to fit with the proposed site. Even as retailers work to develop physical store prototypes for urban markets, each urban market faces different challenges depending on the physical stock. This requires retailers to spend more time custom-fitting their product to these markets.

To respond to the needs of regional and national retailers, cities across the country have developed business processes to enhance the ability of a retailer to gain speed to market. There is no “one size fits all” process for a city, but given the core objectives discussed above, there are best practices from which to learn. Chicago, Milwaukee, and Huntington Park, California, provide three examples of notable programs.

The Retail Chicago initiative links local retail brokers and local community development corporations to ensure that all interested retailers are provided not only with up-to-date market data but also with the right contacts in the neighborhoods seeking investment. More than 140 delegates throughout the city partner with Retail Chicago, including the Oleary Group, CDCs, Chambers of Commerce, and other community groups. Maps for each of the 50 wards highlight such key data elements as adjusted retail sales potential and leakage, as well as key trend data on home prices, permits, and rents. Finally, Retail Chicago enables self-certification for the architect to fast-track the permit process. All these processes are helping Retail Chicago achieve its four-point objectives to: (1) stop sales bleed to suburb (and increase tax revenue), (2) reduce blight, (3) improve access to goods and services, and (4) increase employment.

The City of Milwaukee created the Development Incentive Zone to speed the approval process for the development of Midtown Center, anchored by Walmart. Under Mayor John Norquist, Milwaukee established a commitment to the principles of new urbanism, a movement to create pedestrian-friendly neighborhoods that contain many different types of uses. Given that framework, the city spelled out its requirements exactly, including driveways that are at grade with the city streets so that drivers are not aware of a physical transition
when entering private space; store entrances that are articulated on the buildings’ roof lines; rooftop equipment screened from view; and the consideration of which walls would contain the most windows. These design improvements got the attention of the Congress for the New Urbanism, which recognized the project with an award.

Huntington Park, near Los Angeles, joined Home Depot’s team and proactively partnered to address governmental, regulatory, and citizens’ concerns. In addition to providing up-to-date demographic and property data, the city developed two teams to address all of the critical issues to facilitate the retail development. The first group oversaw planning, design, site assemblage, community concerns, and safety and environmental regulations. The second group was responsible for economic issues, such as financing, subsidies, and other formal incentives. The provision of equity-through-development incentives and creative financing provided support for infrastructure and other soft development costs that was essential to make the deal work.

The examples of best practices above focus on capturing opportunity that is external to the city and converting it to a local asset. In addition, any strategy for encouraging external investment in emerging domestic markets must be altered slightly to help local small business retailers too. The majority of goods and retail services in our urban communities are provided today by local small businesses. Yet, as the case of Princess Jenkins in Harlem illustrates, these entrepreneurs often move into business outside the formalized business processes noted above. New information advances that are making urban market decisions more transparent need to be available to local entrepreneurs to enable them to better manage risk and to align their services to the needs of the community. One way to achieve this objective is to imbed critical data into small business development centers that can serve to support the information needs of this important group of investors. The important navigation functions provided by Retail Chicago and the City of Huntington Park are also accessible to local businesses to better support their success.

**Formalizing Feedback: Building a Knowledge Base**

Finally, formalizing the learning from experience is a crucial step to support good future decision making. For example, Home Depot’s performance in its Southside Chicago investment helped to lay the groundwork for other locations in metropolitan areas, such as the new Manhattan Home Depot, with retail selections geared to the unique needs of urban consumers. In another case, the market research firm Claritas worked with LISC’s MetroEdge to develop new micro-segmentation models to better reflect the realities of urban neighborhoods.

Another need in the local community is to develop the mechanisms that will provide continuous market feedback from those on the ground to keep in touch with urban market realities. The problem is twofold: (1) to incubate and develop new data sources, tools, and technologies that, taken together, have the potential to better describe urban markets; and

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to accelerate the deployment and use of these tools to spur investment in urban markets. Similar complex problems in the realm of science and technology that involve collaboration among public-sector, nonprofit enterprises, academics, and private-sector firms have developed “collaboratories” to assist them in accelerating developments in their field. “Collaboratories” are open virtual and physical “laboratory” spaces in which participants identify an agenda, solicit partners in the work, and educate the field as a whole about the results of the work. An informal version of this capacity exists in practice through the networks, acquaintanceships, and alliances that respond to specific issues and funding priorities of governments, foundations, and the private sector. But what the field lacks is a formal networking capacity to share insights, build on institutional learning, co-develop tools, develop standards, replicate successful approaches, and leverage investments. To respond to this need, the Brookings Institution Urban Markets Initiative established the Urban Markets Collaboratory (www.urbanmarketlab.org), a new portal to aggregate information and resources on urban markets.21

Conclusion

Information is a key support in public- and private-sector interventions to transform poor, segregated neighborhoods into economically vibrant, diverse communities. The lack of data and information in urban markets has created asymmetrical investment patterns that disenfranchise our urban cores. Yet today, thanks to technological advances, we have more information about our operations, transactions, and loan portfolios than ever before. With that information and technology, together we have the power to value urban markets in ways that we have only dreamed of in the past.

New market data generated in part by socially motivated companies is reaching market-driven investors, but more fine-grained data are required. Comparative data must be provided so that urban market decision making can become more predictable; as data improves, it must be delivered efficiently and with lower transaction costs.

Advances in data and information are critical to changing perceptions of what urban markets are and are not. In addition, the right frame on market realities enables both the private and public sector to embrace the right strategies to identify market opportunities. Finally, the “last mile” of a local government’s support can tip the investment scales in favor of emerging domestic markets.

Alyssa Lee is Acting Director of the Urban Markets Initiative (UMI) at the Brookings Institution Metropolitan Policy Program. UMI aims to improve the quality of the information available on urban communities and use it to unleash the full power of those markets while connecting them to the economic mainstream (http://www.brookings.edu/metro/umi.htm).

21 www.urbanmarketlab.org is supported by the Urban Markets Initiative at the Brookings Institution.