

# An Inner-City Renaissance

The nation's ghettos are making surprising strides. Will the gains last?

By Aaron Bernstein in Washington, with Christopher Palmeri in Los Angeles and Roger O. Crockett in Chicago

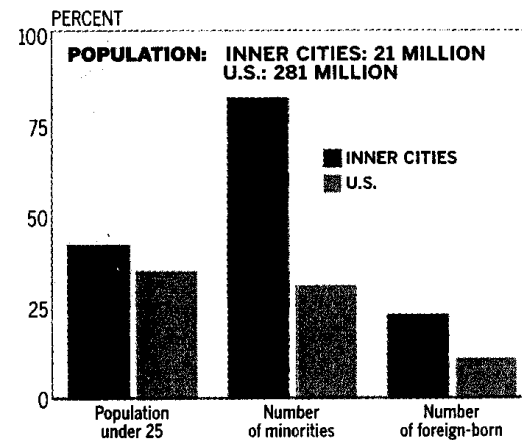
Take a stroll around Harlem these days, and you'll find plenty of the broken windows and rundown buildings that typify America's ghettos. But you'll also see a neighborhood blooming with signs of economic vitality. New restaurants have opened on the main drag, 125th Street, not far from a huge Pathmark supermarket, one of the first chains to offer an alternative to overpriced bodegas when it moved in four years ago. There's a Starbucks -- and nearby, Harlem U.S.A., a swank complex that opened in 2001 with a nine-screen Magic Johnson Theatres, plus Disney and Old Navy stores and other retail outlets. Despite the aftermath of September 11 and a sluggish economy, condos are still going up and brownstones are being renovated as the middle classes -- mostly minorities but also whites -- snap up houses that are cheap by Manhattan standards.

It's not just Harlem, either. Across the U.S., an astonishing economic trend got under way in the 1990s. After half a century of relentless decline, many of America's blighted inner cities have begun to improve. On a wide range of economic measures, ghettos and their surrounding neighborhoods actually outpaced the U.S. as a whole, according to a new study of the 100 largest inner cities by Boston's Initiative for a Competitive Inner City (ICIC), a group founded in 1994 by Harvard University management professor Michael E. Porter.

Consider this: Median inner-city household incomes grew by 20% between 1990 and 2000, to a surprising \$35,000 a year, the ICIC found, while the national median gained only 14%, to about \$27,000. Inner-city poverty fell faster than poverty did in the U.S. as a whole, housing units and homeownership grew more quickly, and even the share of the population with high school degrees increased more. Employment growth didn't outdo the national

## Inner Cities and Their Residents...

The Boston-based Initiative for a Competitive Inner City has completed the first-ever analysis of the 100-largest inner cities in the U.S. and finds the once-dismal picture brightening



average, with jobs climbing 1% a year between 1995 and 2001, vs. 2% nationally. Still, the fact that inner cities, which are 82% minority, created any jobs at all after decades of steady shrinkage is something of a miracle.

### SCENT OF OPPORTUNITY

Nor are the gains just the byproduct of the superheated economy of the late 1990s. Rather, they represent a fundamental shift in the economics of the inner city as falling crime rates and crowded suburbs lure the middle-class back to America's downtowns. After decades of flight out of inner cities, companies as diverse as Bank of America, Merrill Lynch, and Home Depot have begun to see them as juicy investment opportunities. National chains are opening stores, auto dealerships, and banks to tap into the unfulfilled demand of inner cities.

Wall Street, too, is jumping in, making loans and putting up equity for local entrepreneurs. "Smart businesspeople gravitate toward good opportunities, and it has become clear that inner cities are just that," says David W. Tralka, chairman of Merrill

## ...Did Better than the Nation As a Whole in the 90s...

Change between 1990 and 2000 Census data

	INNER CITIES	U.S.
Population	<b>24%</b>	<b>13%</b>
Household income	<b>20%</b>	<b>14%</b>
Housing unit growth	<b>20%</b>	<b>13%</b>
High school graduates*	<b>55 to 61%</b>	<b>75 to 80%</b>
College graduate*	<b>10 to 13%</b>	<b>20 to 24%</b>
Home ownership	<b>29 to 32%</b>	<b>64 to 66%</b>
Poverty rate	<b>34 to 30%</b>	<b>13 to 12%</b>

\*Of those 25 and over

## ...Although There's Still A Long Way to Go

2000 Census data

	INNER CITIES	U.S.
High school graduates*	<b>61%</b>	<b>80%</b>
College graduates*	<b>13%</b>	<b>24%</b>
Poverty rate	<b>31%</b>	<b>11.3%</b>
Unemployment rate	<b>12.8%</b>	<b>5.8%</b>
Home ownership rate	<b>32%</b>	<b>66%</b>
Average household income	<b>\$34,755</b>	<b>\$56,600</b>
Aggregate household income	<b>\$250 billion</b>	<b>\$6 trillion</b>

Data: Initiative for a Competitive Inner City

Lynch & Co.'s Business Financial Services group. In 2002, his group, which caters to small business, began formally targeting inner cities. It now offers financing and commercial mortgages for hundreds of inner-city entrepreneurs around the country.

Is it possible that America at last has started to solve one of its most intractable social ills? True, the progress so far is minuscule compared with the problems created by decades of capital flight, abysmal schools, and drug abuse. And some inner cities, like Detroit's, have made little sustained progress. Ghettos also have been hit by the joblessness of this latest recovery. The national poverty rate has jumped by nearly a percentage point since 2000, to 12.1% last year, so it almost certainly did likewise in inner cities, which the ICIC defined as census tracts with poverty rates of 20% or more.

But as the economy recovers, a confluence of long-term trends is likely to continue to lift inner cities for years. The falling crime rate across the country has been a key factor, easing fears that you take your life in your hands by setting foot in an inner city. At the same time, larger demographic shifts -- aging boomers turned empty nesters, more gays and nontraditional households without children, homeowners fed up with long commutes -- have propelled Americans back into cities. When they arrive, slums suddenly look like choice real estate at bargain prices.

### BEYOND PHILANTHROPY

Political and civic leaders helped lay the groundwork, too. After floundering for decades following the exodus of factories to the suburbs in the 1950s, many cities finally found new economic missions in the 1990s, such as tourism, entertainment, finance, and services. This has helped boost the geographic desirability of inner-city areas. New state and federal policies brought private capital back, too, by putting teeth into anti-redlining laws and by switching housing subsidies from public projects to tax breaks for builders. As a result, neighborhoods like the predominantly African-American Leimert Park in South Central Los Angeles are becoming thriving enclaves.

The outcome has been a burst of corporate and entrepreneurial activity that already has done more to transform inner cities than have decades of philanthropy and government programs. "What we couldn't get people to do on a social basis they're willing to do on an economic basis," says Albert B. Ratner, co-chairman of Forest City Enterprises Inc., a \$5 billion real estate investment company that has invested in dozens of inner-city projects across the country.

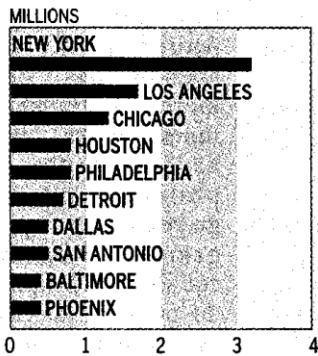
### EMERGING MARKETS

The new view of ghettos began to take hold in the mid-1990s, when people such as Bill Clinton and Jesse Jackson started likening them to emerging markets overseas. Porter set up the ICIC in 1994 as an advocacy group to promote inner cities as

# BENCHMARKS OF PROGRESS

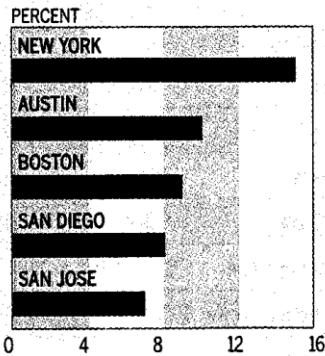
## How Big

INNER-CITY POPULATION IN 2000



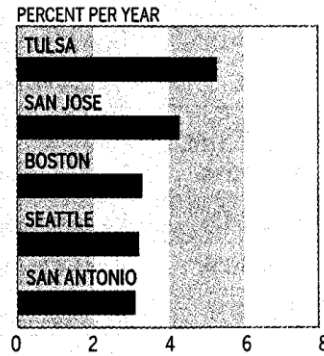
## Grand Opening

TOP 5 INNER CITIES WITH MOST NEW BUSINESSES, 1995-2001



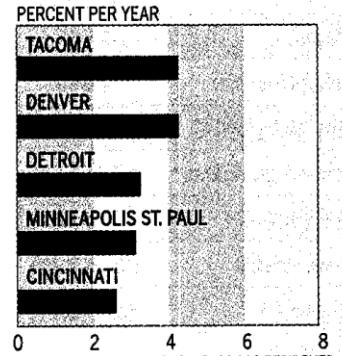
## Help Wanted

TOP 5 INNER CITIES WITH MOST JOB GROWTH, 1995-2001



## Fatter Wallets

TOP 5 INNER CITIES WITH FASTEST INCOME GROWTH, 1995-2001\*



\*OF INNER CITIES WITH AT LEAST 100,000 RESIDENTS  
Data: Initiative for a Competitive Inner City

overlooked investment opportunities. Since then, it has worked with a range of companies, including BofA, Merrill Lynch, Boston Consulting Group, and PricewaterhouseCoopers to analyze just how much spending power exists in inner cities.

The new study, due to be released on Oct. 16, uses detailed census tract data to paint the first comprehensive economic and demographic portrait of the 21 million people who live in the 100 largest inner cities. The goal, says Porter, "is to get market forces to bring inner cities up to surrounding levels."

Taken together, the data show an extraordinary renaissance under way in places long ago written off as lost causes. America's ghettos first began to form early in the last century, as blacks left Southern farms for factory jobs in Northern cities. By World War II, most major cities had areas that were up to 80% black, according to the 1993 book *American Apartheid*, co-authored by University of Pennsylvania sociology professor Douglas S. Massey and Nancy A. Denton, a sociology professor at the State University of New York at Albany. Ghettos grew faster after World War II as most blacks and Hispanics who could follow manufacturing jobs to the suburbs did so, leaving behind the poorest and most un-employable. Immigrants poured in, too, although most tended to leave as they assimilated.

In this context, the solid gains the ICIC found in the 1990s represent an extraordinary shift in fortunes.

One of the biggest changes has come in housing. As cities have become desirable places to live again, the number of inner-city housing units jumped by 20% in the 1990s, vs. 13% average for the U.S. as a whole.

A number of companies were quick to see the change. BofA, for example, has developed a thriving inner-city business since it first began to see ghettos as a growth market six years ago. In 1999 it pulled together a new unit called Community Development Banking, which focuses primarily on affordable housing for urban, mostly inner-city, markets, says CDB President Douglas B. Woodruff. His group's 300 associates are on track this year to make \$1.5 billion in housing loans in 38 cities, from Baltimore to St. Louis. They will do an additional \$550 million in equity investments, mostly real estate.

## SHELLED OUT

Pension funds and other large investors are putting in cash, too. The Los Angeles County Employee Retirement Assn. has sunk \$210 million into urban real estate since 2000, including \$87 million in August for a bankrupt, 2,496-room apartment complex in Brooklyn, N.Y. The plan is to do things like fix the broken elevators, hire security guards, and kick out nonpaying tenants. "We believe there are opportunities that weren't there before or that we weren't aware of," says board member Bruce Perelman.

One question is whether the ICIC's findings represent not so much progress by the poor as their displacement by middle-class newcomers. In other words, inner-city incomes could be rising simply because affluent new home buyers jack up the average. But experts think gentrification explains only a small part of what's going on. "It's certainly a local phenomenon, but if you aggregate 100 inner cities, gentrification is a small trend," says ICIC research director Alvaro Lima, who spearheaded the study.

In Chicago, for instance, a \$65 million redevelopment of the notorious Cabrini-Green housing project has replaced three slummy high-rises with mixed-income units. The area has a new library, new schools, and a new retail center featuring a major grocery store, Starbucks, and Blockbuster -- all staffed by scores of local residents. "The goal is not gentrification, it's to integrate the classes," says Phyllis L. Martin, the head of a local committee that's trying to lure more than \$50 million in private capital to help the city replace 3,245 public housing units in another blighted area, Bronzeville.

Despite the brightening picture, the decay of most inner cities is so advanced that half a dozen years of progress makes only a dent. The degree of poverty - a measure of how many poor people there are in a census tract -- fell 11% in 60 large cities in the 1990s, according to an analysis by U Penn's Massey that parallels ICIC's approach. While that's a significant decline, it only begins to offset the doubling of poverty concentrations in prior decades, he found. "The gains are the first positive news since at least the 1950s, but we're just beginning to undo all the damage," says Massey.

### **BADGE OF SHAME**

What's more, too many inner cities remain untouched. More than a third of the ICIC's 100 cities lost jobs between 1995 and 2001. Detroit's ghetto has seen little new development and shed one-fifth of its jobs over this period. Residents did gain from the booming auto industry, which hired many locals and pushed up their median incomes at a 3.2% annual pace in the 1990s -- the third highest increase of the ICIC 100. But with auto makers now

shedding jobs again, those gains are likely to be short-lived. More broadly, improving inner cities won't come close to wiping out poverty in the U.S. While the inner-city poverty rate of 31% is nearly three times the national average, the 6.5 million poor people who live there represent less than a fifth of the country's 34.6 million poor.

**“We’re just beginning to undo all the damage”**

Still, America's ghettos have been a national badge of shame for so long that any real gain is news. The change in perspective also seems to be an enduring one, not just a 1990s blip. For evidence, consider Potamkin Auto Group, which owns 70 dealerships around the country and will break ground in Harlem in late October on a \$50 million development that will include Cadillac, Chevrolet, Hummer, and Saturn dealers. Potamkin also has a

project in another inner city and is mulling a national expansion. "We see opportunities there," says Robert Potamkin, president of the family-owned company. This view, that inner cities can be a good place to do business, may be the most hopeful news about the country's urban blight in decades.



The Cabrini-Green housing project within Chicago began in the 1940s. Over the years, gang violence and neglect created terrible conditions for the residents, making the development synonymous with urban blight and the problems associated with public housing in the United States. The project was terminated in 2010.