Transcript
FedTalk: Building Black Communities: Investment and Opportunity
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Presentation

Opening Remarks:

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Panelists:

Randal Dawson, Executive Vice President, CBRE

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Moderated by Lara Loewenstein

Lara Loewenstein:

Good afternoon, and thank you for joining us, and welcome to today's FedTalk. My name's Lara Loewenstein, and I'm a research economist here at the Federal Reserve Bank of Cleveland, and it is my pleasure to kick off today's FedTalk on investment in Black communities. FedTalk is the Cleveland Fed speaker series in which we share research that is relevant to our community. Past events have covered such subjects as the racial wealth gap, access to the labor market and financial literacy. All of our events can be found on our website, clevelandfed.org, or on our YouTube channel.

Before we get started, a few housekeeping items. During this Teams event, your microphone and camera are disabled. Please type and submit your questions to our panelists in the chat box. In the case that Microsoft Teams meeting drops, please use the dial-in info provided in the invitation to join the call.

Economic growth in Black communities has been a challenge throughout our country's history. Over the years, redlining segregation and under-investment have combined to limit economic advancement for many Black Americans. Just to put some numbers on the issue, according to the 2019 survey of consumer finances, the median net worth of non-Hispanic white Americans is about eight times as high as the median net worth of Black families, a gap that has persisted for decades. By some measures, this gap is roughly the same as it was in the early 1960s before the passage of the Civil Rights Act. This difference is even darker for younger people. For millennials, the median net worth of white Americans is over 19 times as high as for Black Americans. And similar, long-run disparities hold for income, not just wealth.

Other differences between Black and white communities are more difficult to quantify. For example, Black Americans have less access to full-service grocery stores, and therefore fresh produce, than white Americans. This has affected the health outcomes of Black Americans, which can both exacerbate or be exacerbated by differential wealth status. At the same time, we've only seen increases in racial sorting over time, deepening the divide in our neighborhood experiences. These differences are troubling.

Having a lower wealth and income makes households more vulnerable to economic uncertainty, like what we are facing today. It makes it more likely that events such as losing a job, having a child, or an unexpected medical expense, will result in financial instability. As evidence of this, Black Americans are more likely to be homeless, accounting for 39 percent of people experiencing homelessness, while only accounting for 12 percent of the population. But despite these persistent differences, it's not clear what to do about them. Previous efforts have not always had their intended consequences. That does not mean that nothing should be done, but that we need to think carefully about how to address these issues.

To that end, we have with us three great speakers today that are leaders in their fields. First, we have Randal Dawson, who is an executive vice president at CBRE, a real estate services firm. He comes to us with more than 25 years of experience in the commercial real estate space, working with real estate investors. Second, we have Darcy Freedman. She is the Mary Anne Swetland Professor of Environmental Health Sciences at Case Western Reserve University, School of Medicine. She's nationally recognized for her contributions to community nutrition and health. And last, but certainly not least, we have Steve Walters, who is the chief economist at the Maryland Public Policy Institute, and the author of *Boom Towns: Restoring the Urban American Dream*. With that, I'm going to turn it over to the speakers to further introduce themselves, starting with Randal Dawson.

Randal Dawson:

I'm a member of this panel today because on a national basis, I work with a number of developers who have experience with a wide range of ground-up developments and redevelopment projects across the five main asset classes, which include office, retail, multifamily, industrial, and land, plus healthcare and hospitals. The multifamily asset class includes market rate, workforce, affordable housing, and mixed-use developments with a significant housing component. Over my 25-plus-year career, I've seen developers and developments succeed and quite a number of them fail, and/or never get started. Over this timeline, I have seen common themes of why they succeed and why they fail. In addition, I have a very good understanding of the capital structures and feasibility analysis for market rate and non-market rate developments. And over the course of my career, I worked on developments from as small as $500,000 to as large as $5 million plus, $500 billion plus. And now, I will pass it on to Darcy.

Darcy Freedman:

Great. Good afternoon. Thank you, Randal. I'm Darcy Freedman, I am a community psychologist and population health scientist. As a community psychologist, I think about community in two ways. One is community as process, and you're going to hear this come up in some of my responses today. So thinking about how connection, collaboration, and trust are these key ingredients to change, no matter where you are, but particularly in the topic that we're addressing today in Black communities. And then secondly, looking at community as place. So a lot of the work that I've done is focused on how community environments either promote or reduce health opportunity. I've done most of my work within the area of food systems and health. And I thought I would just share briefly, like how did I even get there?

When I was a doctoral student, one of the projects I did as a community-engaged researcher is a photo-voice study, where you provide cameras to community members to try and document their views on what the issues are, and what the opportunities are for change. And somebody had this picture. These were all moms who had kids and had started preschool programs in Nashville, Tennessee. And one picture was this beautiful tomato. And I could tell it was in an organic market in East Nashville. And that was a market that was deemed as sort of the new way to sell produce in communities. And the woman described this tomato as the dress she saw in the window, something she always wanted, but never could have. And so that was about 20 years ago. Since then, I've been doing a lot of projects focused on food access, food justice, and I'm excited to be here with my collaborators talking about what does this mean in 2022 and beyond. So I'll turn it over to Steve.

Steve Walters:

Thanks, Darcy. I'm Steve Walters, I'm talking to you from Baltimore, but I'm going to say a few words about Cleveland in various points today. So I think I'm the big picture person, in that maybe just because I'm the oldest here, I've been looking at this a long, long time. I've been looking at cities for over 40 years, studying what makes them work and what makes them spin out of control a little bit and impoverish them. So after all that time, I've sort of come back to the conclusion that some very basic structural factors matter a great deal. And so I'm going to talk a little bit about one of them today, taxes, property taxes. But it's not to say it's the only thing that matters, it's one of the things that matter, and I think it's one of the most important things that matters.

It destroys, high property taxes, repels investment and investment in physical capital. Really, physical capital is just the tools of production, the buildings, the machinery within those buildings and so forth, that make us more productive. So when we tax that capital investment more aggressively, what we find is that it goes away. And the other thing that, over those 40 years that I started to put together slowly, was that there's a loose correlation. It's not great, but there's a loose correlation between the percent of minority populations in cities and the tax rates. The higher the minority population, we tend to see higher property tax rates. And that's been especially damaging for Black wealth creation. And some of the data that Lara was reciting, I think some of that variance is attributable to tax policy.

So I'm going to talk a little bit about that, but I'm going to try to be a good news type of person, because I think this problem is fixable. We are in the midst of a racial reckoning in this country, and I think that's very constructive and so forth. And I want to talk about a structural factor that I think can be addressed in a very practical, constructive way, that can lead to major improvements in urban vitality and especially in cities that are predominantly minority populations. So that's where I'm going to go with this. I want to leave enough time for questions and answers from the audience, as well as from Lara. But my mantra is going to be kind of, the bad news is that taxes matter, the good news is we can fix this. Back to Lara.

Lara Loewenstein:

Thank you, Steve and Darcy and Randal. With that, I would want to hand it back over to Randal and just ask, in your experience working with commercial real estate investors, is it true what Steve's saying, that property taxes can have such a large impact in your experience, and what are the other things that have limited investors from locating in Black neighborhoods? You said you had a lot of experience in both failed and successful projects, and have seen some of those patterns play out over time. So could you speak more to that?

Randal Dawson:

Sure. And I think the issue is multi-pronged, in that developers have some responsibilities, investors have responsibilities, states, cities, and the federal government. I think that there's been a lack of investment in these communities because the states and the cities have not made it a priority to fund the economic gaps on projects in these communities. I also think that there is institutional bias against these communities with lower incomes and lower educational status, and primarily putting the emphasis on financial institutions, but along with higher educational institutions, pension funds. They're not investing in these communities. And overall, there is a lack of public sector investment to support private sector investments and also offset the risk.

The development community is usually trying to work to a return on cost in these communities, and they can't hit the return on cost numbers. So they don't waste their time on these developments, because the tools aren't there to help them bring these projects to life, and because they don't pencil out. These communities won't deliver on the luxury apartment rent levels. But what is needed is usually more workforce affordable price points. And the issue though, is that the construction cost and the cost of labor is almost the same for luxury workforce and affordable housing. So you have a situation where you have bad economics. And what's required is that if the cities are willing to prioritize funding for these project gaps in financing to get the workforce and the affordable housing, then you'll see more developers make it a priority.

And then on the federal government level, we have the CR, the Community Reinvestment Act, which is in the process of being rewritten, but there needs to be more tax incentives, public-private partnerships, opportunity zones. Currently, none of this provides sufficient incentives to promote investment at the necessary levels. And then coupled with that, there is a lack of representation from the decision makers, and the people that are making the decisions are looking at the risk profiles and return on investment, the IRR, at somewhat of a lower level. Again, as I mentioned before, there's an issue with construction costs, with labor, and also with the financial institutions. I think that you also need to look at the board of directors, because the board of directors is sort of giving issues and mandates to the CEO of the organizations, and they're not making it a priority. So therefore the CEO and everyone that works for the financial institution is not making it a priority.

And then on the federal government level, something additionally that they could do is provide federal guarantees similar to an SBA loan for a business. And there needs to be some type of credit enhancements, because these projects in those communities don't typically pencil out. And then I'll wrap up and say briefly that there are debt and equity funds that are looking at making investments in these communities. But most of them that I'm aware of, have an equity of $100 million to $400 million, which is relatively small, given that the commercial real estate industry is a $21 trillion industry per Nareit in 2021. So there're several factors, just to recap, that impact the investment.

Lara Loewenstein:

Thank you, Randal. I wanted to turn it to Steve to see if he has any response to that. And also we had a question from one of our listeners that they submitted pre-joining, which was asking specifically about opportunity zones and how their lines were drawn and why they didn't include more African American areas, specifically in Akron, but I assume more nationally as well. So either Randal or Steve, or Darcy, if you have any thoughts on that as well, that'd be great.

Steve Walters:

I agree with everything Randal said, and I hope everybody took careful notes about the micro level. But one more thing that Randal didn't say, had to do with, I love the phrase, bad economics. So I want to talk a little bit about that. So in the last decade, according to the Case-Shiller Home Price Index, the national average of 20 city average, if you had a $100,000 house exactly a decade ago, in real inflation adjusted terms, right now, you have a $200,000 house. Real home prices on the national level have doubled in the last decade. In Cleveland, that $100,000 house has appreciated only to $158,400. So about 42 percent less real equity, and that's a real obstacle to wealth creation. And so my point is that the cross sectional evidence here, there are lots and lots of cities where a lot of these micro factors, public investment, and other kinds of things that Randal mentioned, those factors are present there too.

So what's the distinguishing characteristic for places like Cleveland? Same story holds for my hometown of Baltimore, the same story holds for Detroit and in other majority minority cities. And that's where I came after these years to tax policy. So the thing is at the local level, at the municipal or regional level, what you see is an array of taxes. And the tax differences would be fine if they were matched by the value of the services that the local governments are providing. But we frequently find that that's not true. So in Cuyahoga County, the property tax rate averages 2.64 percent. In a neighboring county, Medina, it averages 1.66 percent. But here's an extreme example. I think Lara said that she lives in Cleveland Heights. Well, there's a jurisdiction in Cuyahoga County, Euclid South, Cleveland Heights. The property tax rate there is 4.22 percent. There's a jurisdiction in Medina County that's 1.39 percent. So you got roughly a three-to-one ratio there between property tax rates. And I don't really think there's a three-to-one ratio in the quality of public services that Lara is enjoying in her area vis-a-vis Medina.

So that's the problem of bad economics. So if you do the math, if you do the tax arithmetic, a $100,000 house in that high-tax jurisdiction carries a $951 principle interest in tax payment at current interest rates, which have gone up to 6 percent, $951 in the high-tax jurisdiction per month, if it's the same kind of house, in other words, a $100,000 investment. You can buy an abandoned house and put $100,000 worth of sweat equity, or you can borrow $100,000 to hire somebody. But if you have $100,000 asset in the high-tax jurisdiction, you're going to pay a $951 a month payment on it. If you do it in the low tax jurisdiction, it's going to be $715 at current interest rates.

So that's going to repel an awful lot of investment from the high-tax jurisdiction to the low tax jurisdiction, quite apart from all of the variables that Randal correctly mentioned. So the investment's going to flow from the high-tax to the low-tax jurisdictions, and population is going to follow the capital investment. And people with lower stocks of capital and so forth, people in the high-tax jurisdictions, slowly over the years and decades, are going to find that they have less tools to work with, life's less enjoyable and less profitable, and our wages are lower and so forth. And you're going to see a lot of social problems arise from that fundamental non-competitive property tax rate, and you're going to lose wealth.

To equalize those two tax rates, the value of that asset and the high-tax jurisdiction has to fall. This is tax capitalization. So that $100,000 investment that you've put in with sweat equity or hiring somebody, that's going to only be worth $75,000 at those extreme examples. That's a 25 percent loss of wealth in the high-tax jurisdiction versus the low-tax jurisdiction. Now that's an extreme example. That's a really high tax rate in Cuyahoga County versus a low tax rate in a neighboring county. Usually when I do that tax arithmetic, it comes out to be a 10 percent to 15 percent wealth loss for those people who are choosing to invest in the high-tax jurisdiction. And so the moral of the story is they're not going to choose to make that investment, and that's going to impoverish and depopulate that high-tax jurisdiction.

And that, I think is a systematic factor that explains things like why some jurisdictions like my hometown and Detroit and Cleveland and other high-tax cities, it's much more difficult to generate wealth. This is the way most Americans start to generate wealth. They buy a house, and they put their heart and soul into making it better. They invest and they build equity. But the tax arithmetic is relentless. It's like gravity, and you won't build as much wealth in a high-tax jurisdiction because of this tax capitalization phenomenon. And that, again, that's the bad news that the taxes matter this way. And I guess the worst news is that the taxes seem to be higher in majority minority areas. But the good news is there's a fix for that, and you can achieve competitive tax rates with a formula that I'll talk about later, maybe. And I'll let Darcy now address some of Randal's points.

Darcy Freedman:

Just to follow up a little bit coming in, my lens is going to be thinking about health and the ways that these kinds of investments create environments that are healthy and they promote opportunity for people. And so you brought up home loans as a good example of a way that most Americans generate or begin to generate wealth, which brings me to the history of home loans in our country. And Lara started us off talking about redlining, and the homeowner's loan corporation, and how that system, almost 100 years ago now, of divvying out who was able to get a home loan and who's not, based on characteristics of race, ethnicity, religion.

The legacy of that today, that was a decision made in the 1930s, the legacy of that redlining policy. We just published a paper that came out, looking at historical neighborhood redlining and contemporary cardiovascular risk. And going from the best grade, A to B to C to D, D is the worst grade, the red line, the A's are the green line, the best grade, for almost every health issue, you see a very stair step. People in the A's have the lowest, the B's have a little bit more than the A's, the C's have a little bit more than the B's and the D's have the worse. So diabetes, smoking, obesity, high blood pressure, cardiovascular disease, stroke, kidney disease.

And so I guess I just want to add to the conversation, when we're thinking about investment, thinking about a holistic investment, because if you're building buildings, infrastructure in that way, what's the corollary infrastructure for making sure that what happens in the buildings provides living wages for people, or do people have access to health insurance or access to high-quality healthcare? Is the remaining environment around the building or the neighborhood, does it provide the types of resources that promote health, promote opportunity?

And so it's more than just the buildings. It's the kinds of activities that the buildings foster in the community. I'm a system scientist. And so when I think about like the story of investment, there's a way of thinking about it from a system perspective of success to the successful. So people that get money and investment, more good things happen to them, and then they look better for the next round of investment. But the people that don't get the investment, they're not able to produce the kinds of outputs that look like they deserve more money. And so the successful just keep getting more and more, and the unsuccessful, because of that gap, keep getting less and less. And so starting to think about systems that acknowledge the spiraling of inequity that happens. And I think redlining is a horrible, yet very clear example, of the legacy of these kinds of decisions on people's lives and opportunities.

Randal Dawson:

Right. And I just want to pick up on what Darcy said. When a developer asks me to go into any city in USA and says, "Where should I build?" One of my tell tales is, I look and find out what the number one hospital system is in that community, and then I put on a map where their urgent care facilities are. And that tells me what communities they value, what communities are going to have the most investments and what communities that they don't value. And then also when developers are building new developments, there are several things that need to occur in concert with each other. And we sort of touched on it briefly earlier, is grocery-anchored retail, proximity to healthcare, the school system, housing.

And these developments need to be bigger than they are, because if you just try to drop in 200 units, or just try to drop in a grocery-anchored retail center, that's going to be less effective if these other touch points are occurring at the same time. Again, improving the school system, that's something that the city has to do. Grocery-anchored retail, that impacts health. Proximity to healthcare, and housing, whether it's for-sale housing or for-rent housing. But all four of those have to occur in concert with each other, for the development to truly be successful in changing a community.

Steve Walters:

So again, I'm not disagreeing with what you guys are saying. And Darcy, everybody wants to be holistic. And being holistic implies while we are paying attention to various factors that you've identified, we don't fail to pay attention to things like the physical capital, the atmosphere of investment in physical capital as well as human capital and social capital and so forth. We can work on more than one thing at once. And if there's a necessary condition to induce investment in physical capital that we have to satisfy, we need to do that, while at the same time working on other things. Now about the history, this is really kind of a debate about how much of the variation, either across cities or across time, is explained by history, and some truly unjust and contemptible practices that persisted for time, and how much is explained by contemporary factors that we can actually do something about.

So I grew up in Boston. And I'm so old that I grew up in Boston before it was a superstar city. My high school guidance counselor told us all to move away from Boston because it had no future. And I looked at those hope maps for Boston. And at the time, it had a 3 percent Black population. 67 percent of the city was either red or yellow-lined. And that didn't stop Boston from turning itself around. It shrank even faster than Baltimore did from 1950 to 1980. But then tax policy, which matters, was addressed, and Boston thrived thereafter. And the hope maps didn't stop it from thriving. And there are reasonable people who can differ about how much importance to ascribe to various competing factors. There is always a multivariate world. There are always multiple factors influencing what's going on.

I just don't want us to ignore one that we can really, really do something about and level the playing field across neighborhoods and across cities in a very constructive way, and make it much, much easier for us. What I'm most concerned about is not business investors who want to do multimillion dollar projects. What I'm most concerned about is small businesses and homeowners who are, like let's say in my hometown, they're getting clobbered by an investment climate that's very hostile to them, so they're walking away. Just since the last census, Baltimore lost another 9,000 people. The flight problem in Baltimore is just accelerating. We have about 15,000 abandoned homes. And when you think about that, it's like, "Wait a minute. What are we doing to create an asset, a property, that has negative value?" And part of it is the tax calculus. But not all of it is, but part of it is, and we can address it. So I would submit that we should get busy and do that.

Randal Dawson:

Yeah. And also just... Go ahead, Darcy.

Darcy Freedman:

Yeah, I was just going to add, I agree completely that it is really complicated. It's extremely complex, there isn't a silver bullet, there are some opportunities. I think we do need to be risky, and maybe not in a financially risky way, but like maybe risky in the sense of like trying things that we are not sure if they work, because we know the things that we've tried have not worked. So maybe where's the space for innovation, where's the space for creativity, and who's going to be willing to cover the cost if the risk fails. But I think just to add to that, thinking about a city like Cleveland or Cuyahoga County, what are the other factors to level the playing field? Like what is the playing field?

So in Cleveland, there's a concept at USDA, US Department of Agriculture and other groups have put out called areas of persistent poverty. So these are areas that have, since 1990, had a significant portion of their population, I think 30 percent, living below the poverty level. Since 1990, for every census since then. That's a long time. I think it's sort of another corollary to something like redlining, looking at income. So in the City of Cleveland, we have 117 census tracks. And among those, 102 of 117 census tracks, 87 percent are persistent poverty census tracks, meaning that more than 30 percent of the people in those tracks have been living below the poverty level since 1990. If you go out to Cuyahoga County, there's 443 census tracks, and 113 of the Cuyahoga County census tracks are high poverty. So basically, when we move from City of Cleveland only, to Cuyahoga County, we only add in 11 census tracks. So essentially, all of the persistent poverty census tracks in our county are in the City of Cleveland.

And then if you look in those tracks, those 113 tracks in the county, 75 out of 113, or 75 percent, three out of four, have more than 50 percent of the people living there as African American. So I think coming back to leveling the playing field, we have to acknowledge that this is not ... You can't compare Medina and Cleveland Heights and City of Cleveland. These are really different places. That $1 in investment is not coming in in the same way. So what do we do to address the reality that to invest in the City of Cleveland areas where almost every census track has been in poverty for 30 or more years, what's the unique, different strategy of investment in that space? And I think there is a lot of opportunity for creativity and risk-taking to see what could work, because it's a different kind of investment landscape than other places around the country.

Steve Walters:

Well, to circle back to the questioner from Akron, I guess, who wanted us to talk about opportunity zones, this is another thing that I've been studying over 40 years, is how we've tried to target creative plans with locations, specific, special tax breaks that oftentimes are temporary, or that come and go with the political winds and so forth. The Trump administration was talking about opportunity zones. I haven't heard any talk about opportunity zones lately, other than from the questioner. And so long experience of studying these geographically based targeted subsidized investment plans, has led me to believe that they don't work very well, that what works is just simply a competitive tax rate and a receptive investment climate across the whole map. Because we are at an informational disadvantage compared to people in neighborhoods and entrepreneurs who look around their block and say, "Gee, a corner store here would make it." And we don't know that sitting in City Hall.

So over the years, I'm old enough to remember Jack Kemp's enterprise zones and every iteration of specially targeted tax breaks to stimulate investment since then, up to opportunity zones. And they've all had a consistent record of, they're not enough. And oftentimes, they're not fair, because what happens is the politically connected negotiate. I think this was the questioner from Akron's point where, who drew those lines on that map, that decided that this is an opportunity zone and that isn't? And why is this block subject to a special break, and that block is not?

And for an investor, this is another key thing about the focused initiatives. They have to be stable and permanent. If I live in a building that's 100 years old, then it's fine, and it's fine because we take care of it. And if I'm making a 100-year investment, I want to know that this is not something that's going to go away in the next presidential administration or the next mayoral administration. I want to know that this competitive rate is going to be there, and I'm not going to be impoverished by the shifting political winds in five or 10 years. So to get back to fundamentals, yeah we need to be bold and we need to do some things that appear risky.

When I talk to people in Baltimore about what we are trying to do here to get a competitive rate, I say, "Well, the status quo is obviously risky," because not doing something, we are losing 10,000 people a year, roughly. And this was Detroit's problem. You still have the same number of pensions to pay, you still have the same number of pipes to maintain and streets to maintain. You have all these fixed costs, and you're not able to spread them out over as many taxpayers when you chase them away.

So you got to just simply say, "I don't know exactly where the capital should go. That's for the capitalist to figure out where the highest-valued use is, for their capital is. I'm going to trust them. I'm going to just level the field everywhere in my jurisdiction. It can be Harrisville in one county, or it can be Euclid South in another. When you do the arithmetic and the taxes are set aside, then you're looking at a lot of these other factors, like Darcy's mentioned and Randal's mentioned, that also affect the propensity to invest, and you should work on those. But you should not ignore this one, because this one stands in the way of an awful lot. And oftentimes, as city officials, we don't know who looked at us and then ran away, because they did the arithmetic and said just, "It doesn't pay."

Randal Dawson:

Right. Right. And then just picking up on the point that Darcy and Steve made, I think one of the things that a city can do to be proactive is to go in and buy dilapidated housing, underutilized buildings, land, and putting them into a land bank. And this is not a new idea. Then they can offer these properties to developers for free, along with the tax increment financing, which is getting back to Steve's point, to encourage more mixed income housing. As these areas are revitalized, there should be also programs and opportunities where contractors, developers, can create some apprenticeship programs where the minorities in these communities can get a chance to learn a skill. So that's another factor, I think.

Lara Loewenstein:

Okay. Thank you all. I just wanted to turn things to Darcy, just to talk a little bit about sort of what you've seen as the impacts of like lack of access to healthy food, how that can kind of cause subsequent problems, maybe both for children and adults, and how that feeds back onto subsequent issues.

Darcy Freedman:

Yeah. So I think most of us are familiar with this idea of a food desert, this area or neighborhood where there aren't grocery stores, full service grocery stores. There might also be many convenience stores, gas stations, things like that. And this is not surprising that we all know about it, because starting in 2009, Congress required an assessment of the entire United States, looking at where are the food deserts, and who's more likely to live in a food desert. And what came out of that was clarity that they're not randomly put. They definitely are more likely in African American communities, minority communities, low income, also we see in rural communities. And it was sort of this shifting of a pendulum where there had been a lot of effort around behavioral strategies to address this rising problem. And go back to 2000, this rising problem of obesity and chronic disease, and people weren't changing their behaviors, they weren't reading those menus, they weren't eating healthier and maybe it's the environment. And so a big pivot over to the environment.

And I think that with diagnosing the problem, it's about the lack of a grocery store. Of course the solution is to build a grocery store. And so you had a period of 15 years or so where there have been investments through federal initiatives, healthy food financing initiatives, through state initiatives. For example, in Ohio, we have the Healthy Food Fund for Ohio that supported public private development around food retail. So long story short, we've had enough time now to see some of these things live out their life cycle. And unfortunately, we don't see these kinds of food retail development projects changing the problem that we started, which was it's not just that there aren't food stores in the community, it's that there's chronic disease, there's heart disease, there's obesity, diabetes.

And many of the stores, people who were living in the neighborhood, aren't necessarily shopping at those stores. We're not seeing changes in what people buy. We're not seeing changes in diet. And so it sort of enlivened a broader conversation to say, "Well, was lack of a store really the problem?" And I think kind of to the point that I was making earlier, it's an indicator. It's maybe the tip of the iceberg of all these other problems. And so there's been a big shift in the field to say, rather than saying food desert, to talk about food apartheid, and understanding that the reason why isn't there a grocery store or why isn't there any kind of investment in the neighborhood. It's not because it's just not there, there are a lot of complex dynamics that influence why it's there, and then what does it mean to change that.

So thinking about solutions, to get to the point of solutions, if you're thinking about building food retail in a community, how are you also balancing that with transportation development, so people can actually get to the store? How are you connecting food retail to other potential health programming in the community, job development programming? Unfortunately, we had a project we evaluated here in Cleveland, a healthy food financing fund study food hub. And within three years, that food hub went into foreclosure. And that, unfortunately, is a common story for a lot of the food retail development. So I think there's still a concern that food access is a problem. I think we saw that all in COVID, and also we haven't really figured out how best to solve that from a development perspective.

Lara Loewenstein:

And then we had a question from a listener really asking how food banks tie into all of this. Like are food banks trying to sort of make up for the lack of grocery stores in certain areas, or how are they tied into this whole network of food delivery?

Darcy Freedman:

Yeah. Yeah, absolutely. We did a study during COVID where in Cleveland, about eight out of 10 people used a food bank during 2020. That was the COVID year. So prior to COVID, about five out of 10 Clevelanders were using a food bank. So food bank, especially in extremely high-poverty communities, are very much a part of the infrastructure. In many places, your access to food bank would be much higher than access to a grocery store or other healthy food retail. And many food banks have shifted what they provide to include more fresh product, healthy product, things like that. So, I think they are an interim solution. They are not the ideal solution, but they are sort of a stock gap.

Lara Loewenstein:

Thank you. And then I just wanted to take things back to Randal and just ask, does Darcy's description of the developments of grocery-anchored retail going then to subsequently be developed in a certain area and then subsequently going to foreclosure? Does that tie in with your experience? And do you have any thoughts and sort of what the dynamic is there?

Randal Dawson:

Yeah. So my thought is that, and I've sort of mentioned it before, there has to be more than one type of development that goes into a community. You can't just drop in a grocery store and not bring in additional housing, not bring in healthcare. And I guess the way that I see it, is that you need to bring in maybe several different types of developers, a developer that does housing, a developer that does grocery store retail, and then structure the grocery store retail so that maybe they don't have to pay real estate taxes, which lowers their costs of occupancy and their cost to do business. And then you also have to bring in some type of healthcare. The most successful that I've seen, is a grocery-anchored retail with an outline or maybe even inline urgent care facility. But they have to go together. There also has to be housing.

And then most importantly, and this is the city's responsibility, is that they have to improve schools. Because what you have to bring in are market-rate renters, and for-sale housing, you have to bring in workforce housing. And what I mean by workforce, I mean teachers, policemen, firemen, city workers. They also have to be part of the community. And then maybe there's an additional development of affordable housing. Because typically what occurs in an affluent community, is that the service workers are driving more than 30 minutes to get there, and they can't live there. And then some of these developments are being developed with funds from labor unions. And these are tens of millions, hundreds of million dollar developments. But the union workers can't live in the buildings that they're helping to construct, and in the communities that they're constructing them in.

So this is getting back to the investors, what are they looking to support. And what they're willing to support is what gets developed, and we touched on that a little earlier. In most of these communities, there's going to be a financing gap. I've got a story of one developer. He wanted to do a mixed-use development. It took him five years to get there, but he was short. It was a $20 million development, he's short $2 million, and he's struggling to get bank financing for the two million. He's got low-income tax credits, he's got historical credits, et cetera, et cetera. He's got all of these capital stacks, but he's having a difficult time with someone taking a chance on the 10 percent of the overall development. So my big takeaway is that there has to be several different types of development for one single development to do well.

Lara Loewenstein:

Thank you. And then Steven, I just wanted to ask, do you have any experience or thoughts on these sort of one-off property tax relievements or deals that cities do with developers, and how that relates to sort of broader thoughts on property taxes and their effect on investment?

Steve Walters:

Those are discriminatory strategies. The idea here is, I think, to put them in their best light is, well, we can't really afford broad-based tax relief. We can't really afford a competitive tax rate across the whole city. So we're going to hand out special breaks on a basis to call out those little incremental investments that we can say we're moving forward. And in my city, we have people of very modest means in historically redlined neighborhoods. And they're paying property tax rates that are 15 to 20 times higher than the property tax rates paid by the recipients of those special subsidies, whether in the form of TIFs, or sometimes I call it the buy-high-sell-low strategy, where the city will use eminent domain to assemble tracks and bulldoze, and then turn it over to developers at a price lower than they paid for the land and the demolition work.

Those things are just never enough. They are not sufficient to call out the amount of capital investment that can really create flourishing across any particular city or locality, and they're terribly unequal. Like I said, this is essentially discrimination and it tends to reward the people who are politically connected, or who are big enough to just simply afford the lobbyists to go to city hall and say, well relating to the opportunity, "I think the line on the map should be here, because that includes my track that I want to develop." And again, entrepreneurs are very often people of ... We tend to think of them as the big capitalist Buccaneers. But most entrepreneurship that I'm familiar with is very small level. It's individuals often from immigrant backgrounds who is like, "I want to climb the ladder here economically. And the way I do it is I save and I risk the capital that I've assembled. And the question here is where will I be able to do it best?"

It seems to me that sometimes, when we talk about deserts of any kind, whether food or drug or health or retail or something else, we should ask a very simple question. Capitalists tend to like to make money. And if they're not here, whether they're grocers who want to make money selling that, or if they're not here, we need to ask why it's not possible to make money here, because that's probably the first thing we should resolve. If there's a reason that investors shy away from us, we should look first to solutions to that financial calculus. And oftentimes, like I said, when I've looked at it over the years, it's, "Oh, the tax arithmetic doesn't work." It's driven the value of a lot of property in my city below zero. That's shocking. People are walking away from their own property and leaving it for tax sales and so forth, and then there are no buyers, because the present value of the future tax liability, very often exceeds the present value of the rent screen that you can charge.

So here we go. Every year, Baltimore's fiscal situation is more desperate, because we're trying to pay all these fixed costs with a smaller and smaller base of taxpayers population wise, but also a smaller and smaller amount of real property value that we're taxing to pay these bills. That's not a sustainable situation. It's a situation that screams racial inequity in a majority Black city, and it can be corrected. I don't know why we're shrinking from that. That's the first thing. It's not the only thing. Again, all the things that Randal and Darcy are talking about, we should be talking about too, but we should not be missing this fundamental issue in every city we look at, whether it's Cleveland or Detroit or Baltimore. I was looking at ... The district of Columbia government does a wonderful comparative tax study across the largest city in every of the 50 states and so on. And when you look at the tax impacts and the subsequent population patterns, it's like, "Oh yeah, we need to solve this problem." And we can.

There are simple ways of doing this. I haven't talked about the formula that we're trying to use here in Baltimore, but I guess I can, if there's a minute. But you try to embed a competitive tax rate in the charter, but you defer the delivery of that a few years to allow the city budget to accommodate that and to allow the tax base to start to grow. And what we found is that in Boston and California cities and Seattle and Portland, those states have property tax caps that have fueled urban development a long time. When you create a competitive tax environment, capital floods in immediately, and the tax base starts to grow immediately. And you will start to see this dynamic effect very, very quickly. So if a reasonable adjustment period is given for this transition, every city can have a competitive property tax rate if they put their mind to it.

Lara Loewenstein:

Yeah, I think you're getting to a question from a listener, which is that they asked, how do you get around the problem with city leaders calling proposals to cut property taxes absurd? And I think you're getting at some of the transition dynamics of sort of delaying the... Is that what you're saying, delaying the initial tax cut, but putting it more safe?

Steve Walters:

Yeah. So usually when tax cuts come via statewide referendum, they come as a surprise to the cities involved. So I was in California in grad school during Prop 13's implementation and so forth. And no city leader thought that the voters of California would be foolish enough to vote to reduce their property tax rate to a flat 1 percent across the state. So San Francisco's rate was 3 percent, and they made no provision whatsoever. They planned, not at all, for any kind. They were convinced that San Franciscans and other Californians would not do this. So they were shocked when California voted two to one to do it, and they had to reduce their property tax rate by two thirds. They had to roll back assessments a few years to overcome the inflation of the late '70s, which by the way, we're re-living the '70s everybody, how does that feel?

So San Francisco had three years of budget belt tightening where their real expenditures actually fell. And then by the fourth budget year, they were spending 60 percent more in real inflation adjusted terms than they had before the Prop 13 tax cut. Right now, San Francisco spends 3.6 times more per capita on government services than my hometown of Baltimore. They have a very lush property tax base, and they have lush revenues. Now they're not particularly using those revenues wisely. And here's the other thing I was going to mention in response to the question about the investment. One of the really great phenomena that we're seeing is the YIMBYs, the Yes In My Back Yard phenomenon, and it relates to grocery stores and other kinds of developments that Randal and Darcy have been talking about.

Very often, one of the impediments to investment is simply, "I don't want that in my backyard. I don't want the traffic of a grocery store, or I don't want that healthcare or that strip mall," or something like that. So the NIMBY movement, the Not In My Back Yard movement has ... In San Francisco, the rents are high in part because they just won't let you build anything there. And so if we do create an environment where projects make economic sense, and so you actually have to let people build stuff to get more affordable housing and for supply responses to happen and so forth. And one of the real encouraging things that I see lately is the YIMBY movement where people are saying, "Yeah, I want affordable housing. Let's build that apartment building in my neighborhood. And let's do other things."

So in addition to getting some fundamentals right, we got to do a lot of these other things that will encourage and streamline investment, because that's really the life blood of a viable urban economy. If you have a bad economy, you'll have poverty and you'll have hunger and you'll have poor health indicators and so forth, and you got to get that fundamental moving in the right direction. And then a lot of the other things that you'll do will have a much higher yield, because you won't be paddling against the current. You'll be surfing it.

Randal Dawson:

Right. Right. Taxes are just, to say what leaders say, "Well, let's just increase taxes," that's showing a lack of imagination. And cities should be helping business to grow and thrive. And you can't balance the budget on residential property owners. There needs to be some parity between business and residential property owners. So the cities have to do a better job of driving economic development in their communities.

Lara Loewenstein:

Right. Thank you. And it's now 3:58, so I think we're going to start wrapping things up. But I want to thank all three of you for joining us today. I think it's been a really informative and a fun discussion about a very important topic. We are going to send out information about today's program via follow-up email. So if you registered for today's webinar, you should receive that email. That email will contain a link to where eventually the recording of this discussion will be posted, and you're welcome to send that out to anyone else who you think might be interested. And you can also view previous FedTalks on that same website. And so thank you all for joining us today. Have a great day, and we hope to see you back soon.