What Is the Business Case For Investing in Inner-City Neighborhoods?

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For several decades, most large North American localities have suffered inner-city decline, primarily because of rapid growth and urban sprawl. Charlotte, North Carolina, has not been excluded from the effects of urban sprawl and its impacts on central-core neighborhoods. In 1996, in partial response to this trend, Charlotte's city manager recommended $32 million in neighborhood improvement bonds. Later, these bonds were approved by 70 percent of the voters.

Investment Questions

Despite overwhelming approval from the voters, some of the councilmembers and the council-appointed Citizens' Capital Needs Advisory Committee asked, "What is the business case-profits made from financial investments-for investing in inner-city neighborhoods?" To help answer this question, Charlotte contracted with the University of North Carolina at Charlotte's Urban Institute to conduct a quasi-experimental research design.

Implementation of the Neighborhood Improvement Program began with a conditions inventory of all inner-city neighborhoods, entitled "Vital Signs." Neighborhoods were categorized as "stable," "fragile," or "threatened," using a standardized set of such criteria as a housing conditions rating (windshield survey), homeownership percentage, family personal income, high school dropout rate, crime rate, percentage of population dependent on social services, and other factors. Neighborhoods that were categorized as "fragile" or "threatened" were further ranked on a weighted point scale.

Recommendations for specific infrastructure improvements were tailored to the individual needs of each neighborhood, with heavy public input, tempered by what could and should be built. Prior to an initial public hearing, a preliminary assessment was conducted by engineers specifying what the neighborhood needed. From our experience, storm drainage work is usually the highest priority because other infrastructure improvements are dependent on a sound drainage system. Of course, most storm drainage work is below the surface and residents want to see new sidewalks and other improvements.

Infrastructure improvements were implemented under a comprehensive construction approach whereby all infrastructure elements were packaged into one construction contract, as opposed to multiple contracts with multiple schedules. We wanted to go in and do the work and get out. Rehabilitation of water and sewer lines; new stormwater drainage; street resurfacing; new and replacement curbs, and gutters, and sidewalks; new landscaping, and evaluations of street lighting were all included under the heading of infrastructure improvements.

In most cases, older neighborhoods did not meet the current plan-review standards required of new development. Where possible, the new infrastructure standards were followed in the work done for the infrastructure improvements package. In many cases, however, it simply was not feasible to take large slices out of front yards to install sidewalks or to widen neighborhood streets to today's standards because of the already-small sizes of the inner-city front yards.

The first phase of the research involved identifying two pairs of like neighborhoods: in each case, one neighborhood that had received infrastructure improvements (an experimental neighborhood) was matched with a neighborhood that had not (a control neighborhood). Control neighborhoods were guaranteed top priority for future neighborhood funding.

As closely as possible, the pairs of neighborhoods were matched across the several socioeconomic criteria used in the neighborhood conditions inventory (Vital Signs). Another factor in the research was the level of infrastructure funding received. Of the two neighborhoods receiving infrastructure funding (experimental neighborhoods), one neighborhood got $2.2 million in funding, and the other $600,000.

Assessments of the effects of the infrastructure investments required that time elapse so that the benefits-primarily, changes in property values-could be seen and measured. Improvements in one neighborhood were completed two years before measurement, while improvements in the other neighborhood were accomplished three years before they were assessed. Improvements included storm drainage, new sidewalks, curbs, and gutters. In the neighborhood with a higher level of investment, new streets were constructed to result in new residential development.

Early Results

Initial results of the study showed that commercial properties within the control-neighborhood boundaries were unexpectedly affecting the study results by substantially raising property values. This impact paralleled another unanticipated impact: though at first we believed that there would be a spillover effect-i.e, that infrastructure investments would have a positive influence not only on the immediate, improved neighborhood streets but also on other, contiguous streets-the commercial properties and improvements on contiguous streets were in fact isolated such that their conditions did not influence the study results after all.

The experimental neighborhoods did not have commercially zoned properties in the direct study area or in the spillover area. On the other hand, control neighborhoods had commercially zoned properties in the spillover area. During the two-to-three-year study period, commercially zoned properties in the control neighborhoods experienced development, either by expansion or by new businesses.

In fact, initial study results showed that property values in the control neighborhoods had grown more than the experimental neighborhoods exclusively due to commercial development in the spillover areas. These areas were excluded, however, because the city's study intent was directed at residential neighborhoods.

Here are the conclusions reached from the study results:

- Experimental neighborhoods saw increased property values of 65 percent and 22 percent, compared with control neighborhoods, which had changing property values of 8 percent and -2 percent, respectively.

- In the experimental neighborhoods: $2.2 million in public investment in one neighborhood leveraged $11 million in private investment; in the other neighborhood, $600,000 in public input leveraged $9.7 million in private monies. This finding suggests that lower levels of public investments may show a greater return.

- Payback periods for the experimental neighborhoods were 13 years and 43 years. A payback period is the amount of time that an investment pays for itself and includes initial principle and interest earnings over the time period. With bond-financed projects like neighborhood improvements, the debt period is 20 years. If the experimental neighborhoods increase property-tax revenues in excess of the investment, including principle and interest, within 20 years, it is considered a positive payback period.
  The 13-year payback was calculated on the neighborhood receiving $600,000 in public investments, further reinforcing the notion that relatively low levels of public investments bring greater returns. Nonetheless, the experimental neighborhood receiving $2.2 million in public investment contained almost 200 vacant residential lots. If half of these lots were to be developed along the lines of existing residential development, the payback period could be halved.

- Overall, the vital statistics pertaining to the percentages of persons receiving public assistance, the violent crime rate, and median household income were unimpressive in the comparisons. The biggest contrast seen in the socioeconomic-data results involved the changes in homeownership rates: the experimental neighborhoods showed (1) an increase from 27 to 44 percent and (2) 0 percent change, while the control neighborhoods declined (1) from 45 to 22 percent and (2) from 65 to 47 percent.

Another Result: Neighborhood Pride
Several of the original 18 neighborhoods selected for improvements using the 1996 bonds now have been completed. It is evident from interviews with residents that a renewed sense of neighborhood pride is being felt. This pride has fostered well-being, a sense of place, and a feeling of security and has promoted a striving to preserve and better the community.

This study has reinforced city-management and councilmember beliefs that it is important to support inner-city neighborhoods. In May 2000, the city manager proposed a second neighborhood improvement bond totaling $32 million, which was unanimously approved by the council.

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