

**CONNECTING TO MARKETS SERIES:
NEIGHBORHOODS AND HOUSING MARKETS
COMPREHENSIVE COMMUNITY DEVELOPMENT
IN THE METROPOLITAN CONTEXT
JANUARY 23**

[I. INTRO]

GOOD MORNING. THANK YOU, EILEEN, FOR THAT GENEROUS INTRODUCTION. THANKS ALSO TO THE FED AND THE INSTITUTES FOR ORGANIZING THIS EVENT AND INVITING ME TO PARTICIPATE. MOST OF ALL, THANKS TO ALL OF YOU FOR JOINING US IN WHAT PROMISES TO BE AN IMPORTANT AND, I HOPE, ENGAGING DISCUSSION. IT'S A GREAT PLEASURE TO BE HERE WITH SO MANY ESTEEMED COLLEAGUES AND FRIENDS AND I LOOK FORWARD TO HEARING FROM MANY OF YOU THROUGHOUT THE DAY.

MY ROLE TODAY IS TO OFFER SOME OBSERVATIONS ABOUT THE BROADER ECONOMIC CONTEXT TO HELP FRAME THE DISCUSSION OF NEIGHBORHOODS AND HOUSING MARKETS. MY COMMENTS WILL MOVE FROM MACRO TO METRO TO NEIGHBORHOODS TO HOUSING. MY FUNDAMENTAL THESIS IS THAT WE ARE GOING THROUGH A DISRUPTIVE TRANSFORMATION IN THE ECONOMY AT ALL LEVELS. MARKET DYNAMICS, INFRASTRUCTURE AND HUMAN CAPITAL NEEDS, AND BASIC ECONOMIC ORGANIZATION –INCLUDING ECONOMIC GEOGRAPHY -- ARE ALL CHANGING. WE NEED TO PLAN AND ACT – AT EVERY LEVEL AND ON EVERY SUBJECT, FROM NEIGHBORHOODS TO REGIONS TO NATIONS; FROM HOUSING TO LABOR FORCE TO BUSINESS TO INFRASTRUCTURE – TO MOVE TO THE NEXT ECONOMY. RIGHT NOW, WE ARE

OFTEN APPLYING CONVENTIONAL WISDOM, HOPING TO RETURN TO THE PAST
– AND IT WON'T WORK.

THE GOOD NEWS IS – THIS NEXT ECONOMY FAVORS CITIES AND
NEIGHBORHOODS – IT CREATES HUGE OPPORTUNITIES FOR NEIGHBORHOOD
ECONOMIC DEVELOPMENT.

[II. KEY MACRO- OBSERVATIONS]

THE “GREAT RECESSION” IS NOT A TEMPORARY BLIP, OR A ROUTINE
BUSINESS CYCLE, AFTER WHICH EVERYTHING WILL RETURN TO “NORMAL.”
RATHER, IT REFLECTS THAT THE GLOBAL ECONOMY IS UNDERGOING A
MAJOR, DISRUPTIVE TRANSFORMATION -- AS SIGNIFICANT AS THE
INDUSTRIAL REVOLUTION.

WE CAN BRIEFLY HIGHLIGHT A FEW CHARACTERISTICS OF THIS NEXT
ECONOMY:

1. IT IS **KNOWLEDGE-BASED**. KNOWLEDGE EMBEDDED IN PEOPLE AND
ADVANCED TECHNOLOGIES INCREASINGLY DRIVES ENHANCED
PRODUCTIVITY AND SO ECONOMIC GROWTH. ALAN GREENSPAN, WHEN HE
WAS CHAIRMAN OF THE FEDERAL RESERVE, HAD THE RESEARCH
DEPARTMENT MEASURE THE WEIGHT, IN POUNDS, OF OUR GNP OVER TIME.
[THE FED MAY HAVE HAD TOO MUCH TIME ON ITS HANDS – OR THOUGHT SO --
BACK THEN.] OVER 50 YEARS, WHILE GNP QUINTUPLED -- INCREASED OVER
500%, ITS **WEIGHT** BARELY INCREASED AT ALL. THE KNOWLEDGE ECONOMY
PLACES A PREMIUM ON HUMAN CAPITAL, FACE-TO FACE INTERACTION,

NETWORKS AND INNOVATION – SUBJECTS HIGHLY RELEVANT TO CITIES AND NEIGHBORHOODS.

2. THIS NEXT ECONOMY IS ALSO MUCH MORE **DYNAMIC**. THE TECHNOLOGIES ENABLE FLEXIBLE PRODUCTION, MUCH MORE CUSTOMIZED PRODUCTS AND SERVICES, RAPID EMERGENCE OF NEW MARKETS; AND THEY PLACE A PREMIUM ON ADAPTATION, INNOVATION AND ENTREPRENEURSHIP -- NETWORKS AND FLUID CONNECTIONS HAVE BECOME MORE IMPORTANT TO ENABLE FIRMS, INSTITUTIONS AND INDIVIDUALS TO CONTINUALLY REDEPLOY ECONOMIC ASSETS INTO EMERGING PRODUCTS, SERVICES AND SECTORS. FIRMS AND INDUSTRIES EMERGE AND CONTINUALLY REDEFINE THEMSELVES AT MUCH FASTER SPEEDS THAN IN THE PAST. CONSIDER, FOR EXAMPLE, THAT COMPANIES ON THE S&P INDEX IN THE 1920S STAYED ON THE LIST FOR AN AVERAGE OF 65 YEARS, WHILE BY THE 1990S THE AVERAGE REIGN ON THE S&P 500 WAS ONLY 10 YEARS. CHURN – THE RATE OF BIRTHS PLUS DEATHS OF FIRMS PER NUMBER OF FIRMS – IS A LEADING INDICATOR OF ECONOMIC GROWTH. TODAY'S GRADUATES WILL HAVE A DOZEN JOBS BY THE TIME THEY REACH AGE 40.

3. THIS DYNAMISM IS ALSO REFLECTED IN THE CHANGING SCOPE OF MARKET CONNECTIONS AND OPPORTUNITIES, AND THE EMERGENCE OF NEW MARKETS. THE NEXT ECONOMY IS **GLOBAL**. WE NEED TO SHIFT FROM A CONSUMPTION BASED ECONOMY TO FOCUSING ON PRODUCTION FOR EXPORT TO THE FASTEST GROWING MARKETS, PARTICULARLY THE B.R.I.C COUNTRIES. THE NEXT ECONOMY IS **GREEN** – CREATING NEW DEMAND FOR

ENERGY EFFICIENT PRODUCTS AND SERVICES -- AND LIVING PATTERNS -- THAT WILL AFFECT ALL BUSINESSES, AS WELL AS URBAN GROWTH FORM.

4. FINALLY, AND PARTICULARLY IMPORTANT TO TODAY'S TOPIC, THERE IS INCREASING EVIDENCE THAT SUCCESSFUL NEXT ECONOMIES WILL BE **OPPORTUNITY RICH**. HUGE WEALTH GAPS ARE BAD FOR THE ECONOMY LONG TERM. THE PLACES WITH THE LEAST INEQUITY DO BEST BECAUSE THEY DO NOT WASTE THEIR ASSETS OR HAVE TO BEAR THE HIGH COSTS OF POVERTY. THIS MEANS MOVING ISOLATED PEOPLE AND PLACES INTO THE ECONOMIC MAINSTREAM IS A CRITICAL PART OF THE TRANSFORMATIVE INVESTMENTS NEEDED TO MOVE TO THE NEXT ECONOMY.

III. KEY METRO-ECONOMIC OBSERVATIONS – LET ME TURN, THEN, FROM MACRO-ECONOMICS TO WHAT I CALL METRO-ECONOMICS ...]

THE GLOBAL, DYNAMIC AND KNOWLEDGE-BASED NATURE OF THE NEXT ECONOMY FAVORS METROPOLITAN REGIONS. OVER HALF OF THE WORLD POPULATION NOW LIVES IN URBAN AREAS; IN THE U.S., IT'S ABOUT 85%. THIS IS NOT A COINCIDENCE.

METROPOLITAN REGIONS ARE WHERE THE NATION'S ASSETS CONCENTRATE, AND DISPROPORTIONATELY CREATE ECONOMIC VALUE. A PERSON OR FIRM WITH THE SAME CHARACTERISTICS, WHEN LOCATED IN A CITY WITH SIMILAR PEOPLE AND FIRMS, WILL EARN MORE AND HAVE GREATER OUTPUTS. THIS IS BECAUSE, THE CONCENTRATION OF HUMAN CAPITAL, FIRMS AND OTHER ASSETS ENABLES SHARED INPUTS, REDUCED TRANSACTION COSTS,

INCREASED KNOWLEDGE-SPILLOVERS AND OTHER SYNERGIES WHICH INCREASE INNOVATION, EFFICIENCY AND PRODUCTIVITY. FROM AN ECONOMIC POINT OF VIEW, AS ED GLAESER, THE HARVARD ECONOMIST, SAYS, THE VERY REASON FOR CITIES IS TO REDUCE THE TRANSPORTATION COSTS OF GOODS, PEOPLE AND IDEAS.

REGIONS ARE THE GEOGRAPHY AT WHICH KEY ECONOMIC SYSTEMS OPERATE – SUCH AS HOUSING, LABOR AND BUSINESS MARKETS.

INCREASINGLY, IT IS REGIONS – AND NOT NATIONS – THAT ARE PRIMARILY COMPETING IN THE GLOBAL ECONOMY.

NOW, REGIONAL ECONOMIES ARE COMPLEX SYSTEMS. THE SUCCESS OF A REGION DEPENDS ON THE SYNERGIES ACHIEVED BY THE DYNAMIC INTERACTIONS OF ITS PARTICULAR ASSETS. IN A NATIONAL PILOT PROJECT WITH BROOKINGS INSTITUTION, WE'RE CURRENTLY WORKING WITH EIGHT REGIONS ON COMPREHENSIVE METROPOLITAN BUSINESS PLANS FOR ECONOMIC GROWTH. THESE PLANS FOCUS ON FIVE INTERDEPENDENT **MARKET LEVERS** WHICH DETERMINE HOW PRODUCTIVELY ANY GIVEN REGION'S ASSETS INTERACT – DEPLOYMENT OF HUMAN CAPITAL, CONCENTRATION OF CLUSTERS OF FIRMS, SPATIAL EFFICIENCY - WHICH REFERS TO THE BUILT ENVIRONMENT AND INFRASTRUCTURE, INNOVATION AND GOVERNANCE. ESSENTIALLY, THESE MARKET LEVERS DETERMINE OUR SUCCESS BY DETERMINING HOW WELL WE DEVELOP, CONNECT AND DEPLOY ALL OF THE ASSETS OF OUR CITIES.

THESE MARKET LEVERS HIGHLIGHT THE IMPORTANCE OF INTERACTIONS, AND THE SYSTEMS – FROM INFRASTRUCTURE TO NETWORKS TO MARKETS – WHICH FACILITATE THEM. EACH OF THE ASSETS IS BASICALLY WORTH MORE BECAUSE OF THE INTERACTIONS – THEY SUCCEED OR FAIL IN **CONTEXT**. FOR EXAMPLE, HOUSING SUCCEEDS OR FAILS IN THE CONTEXT OF ACCESS TO JOBS, SERVICES, TRANSPORTATION AND OTHER AMENITIES.

CONCENTRATING AFFORDABLE HOUSING IN PLACES WITHOUT ACCESS ISOLATES THE RESIDENTS AND FAILS TO ATTRACT REINVESTMENT – BAD FOR THE HOUSING, BAD FOR THE RESIDENTS, BAD FOR THE NEIGHBORHOOD, AND BAD FOR THE REGION.

THESE CHANGES PARTICULARLY MEAN THAT REGIONS – AND THEIR COMPONENT PARTS -- NEED TO PURSUE VALUE ADDED STRATEGIES – IDENTIFYING AND BUILDING FROM THEIR PARTICULAR ASSETS.

CONVENTIONAL, ZERO-SUM STRATEGIES COMPETING ON LOW COST, SUCH AS TAX INCENTIVES FOR BUSINESS ATTRACTION, WILL NOT GENERATE SUSTAINED GROWTH. ECONOMICS IS NOT A ZERO-SUM GAME IN WHICH A REGION OR NEIGHBORHOOD CAN ONLY PROSPER AT ANOTHER'S EXPENSE. INSTEAD, THE GOAL MUST BE TO INVEST IN A STRONG WORKFORCE, INFRASTRUCTURE, VITAL CONNECTED COMMUNITIES, AND INNOVATION NETWORKS THAT WILL CREATE NEW VALUE AND LAY THE FOUNDATION FOR LONG TERM ECONOMIC GROWTH.

[IV. WHERE DO NEIGHBORHOODS FIT IN?]

IF PROSPERITY DEPENDS ON THE INTERACTIONS OF ECONOMIC ASSETS IN REGIONS, NEIGHBORHOODS PLAY A CRITICAL ROLE. THE FUNCTION OF NEIGHBORHOODS, APPLYING THE DEVELOPMENT FRAMEWORK OF AMARTYA SEN, IS TO BUILD CAPACITY AND OPPORTUNITY BY INCUBATING OUR KEY ASSETS – PEOPLE, REAL ESTATE, BUSINESSES -- AND THEN CONNECTING THESE ASSETS TO REGIONAL SYSTEMS.

IN A SENSE, NEIGHBORHOODS, TOO, SUCCEED OR FAIL IN CONTEXT – AND THEIR CONTEXT FOR THESE PURPOSES IS ECONOMIC SYSTEMS LARGER THAN THE NEIGHBORHOOD ITSELF. ONE OF THE IRONIES OF NEIGHBORHOOD ECONOMIC DEVELOPMENT IS THAT NEIGHBORHOODS DON'T REALLY HAVE ECONOMIES – THEY ARE THE FOUNDATIONAL COMPONENTS OF LARGER SYSTEMS.

IN GENERAL, NEIGHBORHOODS, CITIES AND REGIONS DECLINE OR PROSPER TOGETHER – REAL ESTATE VALUES, INCOMES AND OUTPUTS ALL TEND TO CORRELATE. BOTH REGIONAL GROWTH AND NEIGHBORHOOD SUCCESS REQUIRE PAYING ATTENTION TO CREATING VITAL, HEALTHY, CONNECTED COMMUNITIES WHICH DEVELOP AND DEPLOY THEIR ASSETS INTO LARGER ECONOMIES.

JUST AS THE DYNAMICS OF THE GLOBAL, KNOWLEDGE ECONOMY FAVOR REGIONS, THEY FAVOR NEIGHBORHOODS. EFFICIENCY, PRODUCTIVITY AND INNOVATION FLOW FROM DENSE, MIXED USE COMMUNITIES THAT ARE WELL CONNECTED BY PHYSICAL AND VIRTUAL INFRASTRUCTURE. FOR THIS

REASON, PEOPLE AND FIRMS ARE MOVING BACK TO DENSE URBAN NEIGHBORHOODS, TO BE CLOSER TO JOB CENTERS, TALENT, TRANSIT AND RETAIL AMENITIES, AND TO MORE NATURALLY HAVE THE INTERACTIONS AND FORM THE NETWORKS THAT GENERATE THIS INNOVATION AND OPPORTUNITY.

THESE TRENDS ALLOW US TO THINK DIFFERENTLY ABOUT HOW WE ELIMINATE THE CONCENTRATIONS OF POVERTY, JOBS-HOUSING MIS-MATCH AND ISOLATED COMMUNITIES THAT BRING DOWN PEOPLE, NEIGHBORHOODS AND REGIONS. WE NEED TO RETHINK URBAN GROWTH FORM – ANTICIPATING AND TAKING ADVANTAGE OF THESE TRENDS TO RESHAPE NEIGHBORHOODS AND CITIES FOR THE 21ST CENTURY. WE HAVE 20TH, OR EVEN 19TH, CENTURY INDUSTRIAL LAND USE POLICIES THAT DON'T SUIT 21ST CENTURY BUSINESSES. WE INSTEAD NEED TO COORDINATE OUR LAND USE, HOUSING, PUBLIC TRANSIT, BUSINESS SUPPORT AND OTHER POLICIES TO FOSTER DENSE, MIXED USE, WELL CONNECTED COMMUNITIES – TAILORED AND CONTRIBUTING TO REGIONAL ECONOMIC OPPORTUNITY.

[V. IMPLICATIONS FOR NEIGHBORHOOD DEVELOPMENT]

THIS FRAMEWORK HAS SEVERAL KEY IMPLICATIONS FOR NEIGHBORHOOD DEVELOPMENT, AND PARTICULARLY FOR CDCs.

WE NEED TO ALIGN COMMUNITY DEVELOPMENT AND REGIONAL ECONOMIC GROWTH. COMMUNITY DEVELOPMENT OFTEN SEEKS TO IMPROVE THE CIRCUMSTANCES OF POOR PEOPLE AND PLACES, LARGELY DISCONNECTED

FROM THE REGIONAL ECONOMIC CONTEXT. INSTEAD, WE NEED TO FOCUS ON *CONNECTING* POOR PEOPLE AND PLACES TO THE ECONOMIC MAINSTREAM. TO ALLEVIATE POVERTY, WE NEED TO CREATE WEALTH. WEALTH IS CREATED THROUGH INVESTING IN ASSETS. IN OUR ECONOMY, THE MECHANISM FOR INVESTING IN ASSETS IS MARKETS. TO ADDRESS POVERTY, THEN, WE NEED TO CONNECT NEIGHBORHOOD ASSETS TO REGIONAL MARKETS.

THIS MEANS THAT NEIGHBORHOODS NEED TO BE APPROACHED AS DYNAMIC PARTS OF LARGER SYSTEMS: THEY ARE ALWAYS IN MOTION AS PEOPLE, BUSINESSES AND INVESTMENTS MOVE IN OR OUT. WE NEED TO PROFOUNDLY UNDERSTAND THE PEOPLE AND ASSETS OF A PARTICULAR TYPE OF NEIGHBORHOOD, AND THE REGIONAL DYNAMICS THAT DRIVE THIS MOVEMENT OF PEOPLE AND INVESTMENT, TO CONTINUALLY RENEW NEIGHBORHOODS AND REGIONS.

THE OPPORTUNITY IS ESPECIALLY RIPE NOW FOR RENEWED FOCUS ON HOW TO ENABLE AND SHAPE MARKET ACTIVITY TO SUPPORT EMERGENCE OF HEALTHY, CONNECTED NEIGHBORHOODS. THE BENEFITS OF DENSITY, OF RICH NETWORKS, THE MOVE BACK TOWARDS MIXED USE NEIGHBORHOODS, RECOGNITION OF THE CO-DEPENDENCE OF REGIONS AND NEIGHBORHOODS, EVEN THE HEIGHTENED PACE OF CHANGE, ALL OFFER THE CHANCE TO PLAN AND ACT FOR THE NEIGHBORHOODS AND URBAN GROWTH FORM THAT WILL PROSPER IN THE NEXT ECONOMY.

[VI. WHAT ARE THE IMPLICATIONS OF ALL OF THIS FOR THE HOUSING CRISIS?]

FIRST, I RECOGNIZE THAT, IN THE CONTEXT OF A FORECLOSURE CRISIS THAT HAS DECIMATED SO MANY NEIGHBORHOODS, THE “BIG PICTURE” I HAVE LAID OUT MAY SEEM MORE THAN A BIT ABSTRACT. I SERVED ON THE HUD TRANSITION TEAM, AND DO REALIZE THAT WE URGENTLY NEED MANY MORE DIRECT AND IMMEDIATE SOLUTIONS - FROM REFINANCING VEHICLES TO LAND BANKS TO REPURPOSED VACANT PROPERTIES. BUT ALLOW ME TO CLOSE WITH FEW IMPLICATIONS.

FIRST, JUST AS THE HOUSING CRISIS WAS NOT CAUSED IN THE NEIGHBORHOODS, IT CANNOT AND SHOULD NOT BE SOLVED EXCLUSIVELY IN THE NEIGHBORHOODS. OUR NATIONAL POLICIES WHICH ENCOURAGED SHORT TERM FINANCIAL TRICKS TO MOVE VALUE AROUND, INSTEAD OF CREATING NEW VALUE, NEED TO SHIFT TOWARDS INVESTMENT IN NEW ASSETS AND LONG TERM ECONOMIC GROWTH. THIS INCLUDES, AT A NATIONAL AND REGIONAL LEVEL, INVESTMENT IN NEIGHBORHOODS.

SECOND, THE GOAL SHOULD NOT BE TO RETURN TO WHERE WE WERE – JUST AS THE NATIONAL ECONOMY IS NOT GOING TO “RESET” TO SOME OLD “NORMAL,” NEITHER ARE OR SHOULD THE NEIGHBORHOODS. WE NEED TO PLAN AND ACT FOR THE NEIGHBORHOODS THAT WILL SUCCEED IN THE NEXT ECONOMY.

THIRD, HOUSING INVESTMENT MUST BE APPROACHED IN CONJUNCTION WITH INVESTMENT IN LABOR FORCE, FIRMS, INFRASTRUCTURE AND OTHER ASSETS AND SYSTEMS. AS YOU WILL HEAR IN MORE DETAIL FROM THE PANELISTS, HOUSING DOES IN FACT SUCCEED OR FAIL IN THE CONTEXT OF OTHER ASSETS AND REGIONAL DYNAMICS. THE FIX CANNOT BE JUST ABOUT HOUSING. THIS INVESTMENT IN NEIGHBORHOODS MUST BE “IN CONTEXT” OF REGIONS AND THE GLOBAL ECONOMY. THE SMARTEST PLACES ARE INVESTING IN NEXT GENERATION NEIGHBORHOOD INFORMATION AND ENERGY PLATFORMS, TRANSIT ORIENTED DEVELOPMENT, DENSITY AND MIXED USE.

FINALLY, THIS INVESTMENT HAS TO BE GROUNDED IN AND TAILORED TO THE ASSETS AND ASPIRATIONS OF DIFFERENT TYPES OF NEIGHBORHOODS -- BASED ON HARD-HEADED, FACT-BASED MARKET ANALYSIS. ONE SIZE DOES NOT FIT ALL. JUST AS REGIONS ARE SPECIALIZING AND NEED TAILORED BUSINESS PLANS TO BUILD FROM THEIR ASSETS, SO DO NEIGHBORHOODS. “NEIGHBORHOOD BUSINESS PLANS” WOULD ENABLE STRATEGIC ACTION TAILORED TO PARTICULAR PLACES ADDRESSING POSITION IN THE MARKETPLACE, KEY ASSETS AND POTENTIAL CHALLENGES; DEVELOPMENT GOALS; AND THE STEPS NEEDED TO ACHIEVE THEM.

CONCLUSION

IN CONCLUSION ... THE DRIVERS OF SUCCESS IN THE EMERGING NEXT ECONOMY FAVOR REGIONS AND PARTICULARLY URBAN NEIGHBORHOODS,

CREATING MAJOR OPPORTUNITIES FOR NEIGHBORHOOD AND HOUSING DEVELOPMENT. SEIZING THESE OPPORTUNITIES REQUIRES THAT WE DEVELOP DEEPER UNDERSTANDINGS OF THE CHANGING ECONOMIC DYNAMICS, THEIR DRIVERS AND HOW TO INFLUENCE THEM, AND THAT WE APPLY THESE UNDERSTANDINGS IN TAILORED WAYS TO THE ASSETS OF OUR NEIGHBORHOODS. THIS WON'T BE EASY, BUT IT WILL BE TRANSFORMATIVE. AND WE HAVE NO CHOICE.

THE GOOD NEWS IS THAT, WITH ALL THE GREAT MINDS AT THIS GATHERING, I BELIEVE WE CAN FIGURE OUT WAYS TO COME OUT OF THIS HOUSING CRISIS WITH STRONGER NEIGHBORHOODS, STRONGER REGIONS, AND A STRONGER NATION.

THANK YOU ALL FOR YOUR ATTENTION. I LOOK FORWARD TO HEARING FROM GEORGE, AND TO THE PANEL AND REGIONAL DISCUSSIONS.