What helps communities remain strong and vital?

In last quarter’s issue of Community Dividend, we discussed the importance of affordable housing as a factor in preserving or improving the quality of a community’s life. This quarter we highlight another component of community development lending and investment: downtown revitalization. We examine the problems of downtown decline from a retail standpoint and offer a profile of what one booming Minnesota city has done.

In future issues we will look at two other aspects of community development—small business and nonprofit development.

Finally, we want to hear from you about your own success stories in affordable housing, downtown revitalization, small business development—or any other areas of community development.

Downtown Revitalization: A Retail Perspective

At one time or another over the past twenty years or so nearly every city or town in the country has embarked on a downtown “revitalization” program or effort. Sometimes they are very formal endeavors, with corporations formed to coordinate the efforts, raise large sums of money, and undertake grand redevelopment schemes. Sometimes they are just a loose affiliation of merchants and business people getting together to try to find ways to improve the business climate.

In nearly every case, the revitalization is needed because of a perceived weakness in the retail sector of the downtown. And while it certainly isn’t fair to judge a downtown’s overall health simply by judging the health of its retail sector, it is fair to say that a downtown without a robust retail sector is usually a downtown in trouble. The decline of America’s core retail centers of downtown districts, which began over twenty years ago, has essentially mirrored the dramatic demographic changes taking place over that same period. The following brief quiz helps to illustrate how our core retail centers have declined.

Question:

What do the following “facts” about consumer behavior have to do with downtown revitalization?

- Approximately 80% of all retail shopping is done by women.
- Approximately 60% to 70% of all retail purchases are made on impulse.
- Typically, people turn to their right upon entering a building when their destination is not immediately clear.
- The typical earner in a two-earner household has about 2 hours of real discretionary time per week.

Answer:

You need to know these and dozens of other facts about consumer behavior to take advantage of how and why people behave as consumers today. And while these facts are un-denially obscure, it is precisely because of their obscurity that these little realities of consumer behavior have not often enough influenced decisions about hours of operation, the mix of stores and store types, and the goods and services downtown merchants offer. Indeed, it is arguable that many
downtowns have declined as retail centers, at least in part, because too few merchants understand how and why people behave as they do and why facts like those cited above have a great impact on the success or failure of any given retail establishment. Financial institutions, too, need to be aware of these tendencies. Demographics can help explain consumer behavior. Consider the “Grand Ratio.” This term was coined by demographer Peter Francese to describe the relationship between the number of children under 10 per adult over the age of 65. In 1950 the Grand Ratio was 2.4 children under 10 per person over 65. The ratio stayed high until after World War II; by 1960 the ratio likely reached its peak. After that the ratio began to fall rapidly. The year 1960 was the peak year for the number of children under 10. After that, as people aged and the baby boomers aged out of the under-10 category, the ratio began to fall. Today the Grand Ratio is under 1.2, meaning that there are many more children today who will benefit from knowing their grandparents without so much competition from cousins. The Grand Ratio is projected to continue falling so that by the year 2000 there will be only 1 child under 10 for every person over 65 years old.

For retailers, what’s important about this piece of information is that an ever-increasing proportion of apparel for infants and toddlers, and toys for their older siblings, will be purchased by generous grandparents over age 65. A downtown merchant can either gain market share by understanding this behavior or it can lose market share by ignoring it. Unfortunately, adaptation has not always been the hallmark of downtowns.

People shop with their wheels

Indeed, adaptation has been the one thing most downtowns have not succeeded at. Nearly every city in the country saw dramatic but incremental shifts in the way people earned a living and behaved as consumers. But most downtowns made little or no effort to adjust. The growth of outlying residential developments, and with them the growth of strip shopping centers and regional malls, contributed to the overall decline of the downtown.

But while consumer patterns were drastically being altered over the twenty years, one thing remained constant: American consumers want to use an automobile to go shopping. They want to drive by the store window and park within sight of the front door. They want to see the light on or the “Open” sign in the window before they get out of their car. Regional enclosed malls solve

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this problem by enforcing standard hours of operation and by having large well-marked entrances surrounded by acres of well-lit parking lots.

Downtowns can never have the acres of parking of a regional mall, but compounding the problem is the independent behavior of downtown merchants. Instead of having national chain stores in the downtown with consistent operations, downtowns are populated by independent retailers who have their own ideas of how to operate a retail establishment. This gives the downtown an interesting and original flavor, but in combination with the inconsistent operating hours and the other "independent" behavior exhibited by many merchants, downtowns have many times become too great a variable for the consumer, who has too little time to risk parking her car to walk to the store only to find that it is closed.

Are consumers to blame?

As these consumer trends took shape, sales in most downtowns began to decline and merchants left the downtown in favor of the outlying centers or the regional malls, or simply went out of business. As a result, rent rates in most downtowns declined, thus attracting marginal businesses. These marginal businesses failed to bring in the number of shoppers that once were attracted to the better merchants, and thus a cycle of decline set in that has resulted in the current condition of many downtowns.

In a sense, the lower occupancy costs associated with operating a store in the downtown has actually served to subsidize poorly performing businesses, which have failed to attract additional customers, which has caused the failure of even more merchants.

It is this cycle that must be broken, and it is here that too many revitalization efforts fail because the fundamental nature of retailing has not changed in the downtown to better reflect the realities of consumer behavior. Instead, parking decks are built, pedestrian malls are installed, facade improvement programs are enacted, and things are generally spruced up. What needs sprucing up is very often the way the merchants behave, not the sidewalks.

Putting the facts to work

Now back to the quiz. It has been estimated that the typical two-earner household has as little as two hours per week in discretionary time to spend shopping for pleasure. Indeed, one of the most dramatic changes that has contributed to the decline of many downtowns is the growth of dual-earner households. These households have fewer children and are thus less likely to shop at the large family-oriented department stores that were once found in most downtowns. They also have far less time on their hands, just when it is either less appealing to come to a downtown or impossible to find stores open.

In short, the American consumer is neither persistent nor perceptive. They simply do not have the time. Consumers will choose to shop at a place that they know will be open and will have what they want, and too often downtowns are not perceived to be that place anymore.

What do the facts that 80% of all shopping is done by women and that 60% to 70% of all purchases are made on impulse have to do with declining downtowns? First, let's look at who shops. If most shopping is done by women, a fact that has remained unchanged over the past fifty years or more, what can a downtown merchant or downtown revitalization program do to capitalize on this fact? Is the answer more hardware stores for the downtown? Hardly. That is not to say that they should replace their hardware stores with women's clothing stores. But attracting and retaining more stores that will attract more women will increase sales, especially sales made on impulse.

If you have more people shopping you also want to have more stores for them to visit that might induce an impulse purchase. As a typical shopper is walking down the street to visit the store that has caught...
Profile of St. Cloud's Downtown Council

St. Cloud is one of Minnesota's fastest growing areas in both population and business growth. From 1980 to 1990, the area's population rose twice as fast as that of Minnesota's, reaching just under 191,000. The number of businesses in the St. Cloud metropolitan statistical area increased at double the rate of the rest of the state between 1985 and 1990. In fact, all retail sectors in St. Cloud grew faster than those of the state from 1979 to 1990.

This has been no accident. St. Cloud has a diversified economy, two universities, a college, and a prime location in central Minnesota on Interstate 94, which enables it to serve and be served by markets both statewide and nationwide. Being less than a two-hour drive from Minneapolis/St. Paul helps as well.

Yet despite the impressive figures for the St. Cloud area as a whole, St. Cloud's downtown has lagged far behind the rest of the metro area. It has been plagued by disinvestment, parking problems, and declining retail sales while suburban retail has been booming.

For years both the Downtown Development Corporation and the Downtown Association struggled with the downtown problem. In late 1992, the two groups merged to form the Downtown Council. The blending of development experience with the common interests of the Downtown Association's membership into a new organization was seen by community leaders as a fresh start for downtown revitalization.

The 200-member Council is a community-based, nonprofit organization dedicated to improving the business climate of the central business district by generating and coordinating economic development initiatives, business promotions, and community events.

For example, the Council has recently established a special high-incentive, low-cost loan pool that directly generated over $113,000 in new downtown business investment last year. The 1995 budget allocates $300,000 for subsidized loans for interior leasehold improvements and exterior renovation, $200,000 of which is already designated for projects. The loan pool is a joint venture of five local banks, the Housing and Redevelopment Authority, and the Downtown Council.

To fill downtown commercial space, the Council works with local realtors, property managers, and owners. To find assistance for small business expansion, it calls on St. Cloud State University's Small Business Development Center. And to secure a major new state office complex in the center city, the Council is collaborating with state officials and local property owners.

Staffed by a full-time executive director and a downtown promotion coordinator, the Council is directed by a board of 24 public and private sector community leaders. It has a number of active committees addressing the core issues of downtown.

The goals of this relatively new Council are best illustrated by the downtown pedestrian mall. Like many cities, St. Cloud began revitalizing its downtown in the 1970s. At that time, a three-block segment of one of the major streets was converted to a pedestrian mall. Storefronts were spruced up, trees planted, benches installed, and lighting improved in an effort to reattract the consumers lost to the developing suburbs.

Despite the charm, however, the sprawling suburbs were the real hotbed of consumer spending. In recent years, properties on the downtown pedestrian mall were experiencing 38% vacancy rates, and owners saw a $500-600,000 devaluation in properties over the last four years. Twenty years after installation, St. Cloud had to ask whether the pedestrian mall was the best approach. Looking for a

Antique cars take to the road again on a block of pedestrian mall newly opened to traffic. The mall was a downtown revitalization project of the 1970s.
change, the Council garnered enough community support to open up one of the three pedestrian blocks to cars as a way to improve parking and traffic circulation, yet maintain the unified, people-centered look of the mall. The Council also helped secure additional off-street parking on intersecting streets.

Council president Dale Nelson, president and CEO of Liberty Savings in St. Cloud, has been involved with the Council since its inception. He says that one of the benefits of being part of the Council is the greater visibility achieved by his institution. This allows his bank to learn more about its community. Nelson says, "The bank has decided to open up an exterior wall of the bank for walk-up customers, to better serve some of the 4,500 employees who work downtown."

Nelson is very optimistic about the future of downtown St. Cloud. He points out that St. Cloud is quickly becoming a regional banking and government center and even boasts a developing arts district with two theaters.

You may recognize some of the same ingredients in your own city's efforts to revitalize, or re-revitalize, the center city business district. What works and what doesn't in St. Cloud will only be revealed over time. Certainly the outcome will be determined not just by prevailing economic conditions, but also by what passes the rigorous test of consumers. ❖

If you would like more information on the structure of the Council's loan pool or on the Council itself, contact Sue Childers at (612) 259-4010.

If you don't know the tendency, you can't make the choice.

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**Computer Software for Community Development Loan Funds**

The National Association of Community Development Loan Fund's customized computer software for community development loan funds is complete and in its final testing phase. The software system, developed by Data Systems, Inc., Vermont, will help member funds track lending activity and social impact data and will integrate accounting software, loan monitoring, and investor tracking systems. A complete version of the database will be available for sale in October 1994.

Also, NACDLF's *Operations Guide for Community Development Loan Funds* is scheduled to be completed by mid-October. Chapters of the guide may be purchased individually, or you can subscribe to the entire series and receive chapters as they are completed. Chapters include: "Creating a Community Development Loan Fund," "Strategic Planning and Positioning," "Essentials of Governances," "CDLF Performance Assessment Tools," and "Essentials of the Lending Process."

For more information on the software or the *Guide*, including pricing, call the NACDLF at (215) 923-4754. ❖
The Quick Reference Guide for Banking Regulations
American Bankers Association. A 55-page booklet written in outline format featuring a one-page summary of top bank regulations, a glossary, and a compliance calendar. For use by officers, directors, and employees who may not have a primary role in compliance. Each summary includes a brief history of the law or regulation, its primary intention, and details such as implementation requirements and possible fines. The publication summarizes 27 regs such as the Bank Secrecy Act, Equal Credit Opportunity Act, and Truth in Savings. $49.95 for ABA members and $69.95 for nonmembers.

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The Home Mortgage Disclosure Act: An Analytical Tool for Lenders, Regulators, and Consumers
Published by the Federal Reserve Bank of Chicago, (312) 322-8232.
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CRA and Branch Offices: A Match Made in Efficiency Heaven
Published by the Federal Reserve Bank of Chicago, (312) 322-8232.
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Interagency Policy Statement on Discrimination in Lending
Available from the Federal Reserve Bank of Minneapolis, (612) 340-6935.
Free.

Closing the Gap: A Guide to Equal Opportunity Lending
Booklet and video produced by the Federal Reserve Banks of Boston, Chicago, and San Francisco. Outlines a comprehensive set of practices to ensure fair lending at financial institutions.
• Video available from VIDICOPY Corp., 650 Vaqueros Ave., Sunnyvale, CA 94086. $9.95.

Complying with the Community Reinvestment Act in Rural Communities
Published by the Federal Reserve Bank of Chicago, (312) 322-8232.
Free.

1994 Directory of U.S. Microenterprise Programs
Profiles 195 programs in 44 states, 324 pp. $10.
The Aspen Institute Publications Office, P.O. Box 222, Queenstown, MD 21658, (410) 827-7168.

Capital and Communities in Black & White: The Intersections of Race, Class & Uneven Development
by Gregory Squires. 185 pp., 1994. $17.95
SUNY Press, P.O. Box 6525, Ithaca, NY 14851, (607) 277-2211

The Changing Faces of American Borrowers: Maximizing Lending Opportunities
Produced by Independent Bankers Association and the Federal National Mortgage Association. An 18-minute video that trains community bankers in equal treatment of borrowers and includes a ten-step plan to ensure fair lending. $25 plus $2.36 shipping.
IBAA, Attn: Regina, One Thomas Circle, NW, Suite 950, Washington, DC 20005; (800) IBA-VIEW (ask for Regina).

Mortgage Lending, Race & Lender Employment: Does Anybody Who Works Here Look Like Me?
Available from Prof. Kim, Dept. of Economics, University of Wisconsin, Milwaukee, WI 53201.

Smart Firms in Small Towns
By Stuart Rosenfeld, with Philip Shapiro and Trent Williams. August 1992, 106 pages.
The Aspen Institute Publications Office, P.O. Box 222, Queenstown, MD 21658, (410) 820-5326.

Sound Loans for Communities: An Analysis of the Performance of Community Reinvestment Loans
Woodstock Institute, October 1993, (312) 427-8070.

Case Studies on Rural Community-Based Development
Contains 14 complete cases. $12.50.

Rethinking Rural Development
1993. $17.50.
Corporation for Enterprise Development, 777 N. Capitol Street NE, #801, Washington, DC 20002, (202) 408-9788.

Financing Rural Community-Based Development
$7.

CONTINUED ON PAGE 7
AFDC & Microenterprise: Working with Your State to Address Regulatory Barriers 1993. $17.50.
Corporation for Enterprise Development, 777 N. Capitol Street NE, #801, Washington, DC 20002, (202) 408-9788.

Corporation for Enterprise Development, 777 N. Capitol Street NE, #801, Washington, DC 20002, (202) 408-9788.

Microenterprise Credit Programs: Projecting Financial Viability
A computer model and manual enabling the user to develop credit program projections over a 12-year period. Requires Lotus 1-2-3, version 2.2 or above. $18.

Assisting the Smallest Businesses: Assessing Microenterprise Development as a Strategy for Boosting Poor Communities
By Peggy Clark and Tracy Huston. September 1993, 32 pages. $3.00.
The Aspen Institute Publications Office, P.O. Box 222, Queenstown, MD 21658, (410) 820-5326.

Building a Microloan Program: Considerations for the Development Lender

Designing Development Strategies in Small Towns
By Glen Pulver and David Dodson. May 1992, 70 pages. $5.00.
The Aspen Institute Publications Office, P.O. Box 222, Queenstown, MD 21658, (410) 820-5326.

$20.
Rainbow Research, Inc., 621 West Lake Street, Minneapolis, MN 55408, (612) 824-0724.

Savings Groups: A Tool for Community Organizations 1993. $15.
Corporation for Enterprise Development, 777 N. Capitol Street NE, #801, Washington, DC 20002, (202) 408-9788.

Building Partnerships with Neighborhood Funders
Details the partnerships that 13 community-based organizations have formed with banks, businesses, churches, and corporations in their areas. $7.
Rainbow Research, Inc., 621 West Lake Street, Minneapolis, MN 55408, (612) 824-0724.

Venture Capital and Jobs Development Strategies for the Black Community
$9.
Rainbow Research, Inc., 621 West Lake Street, Minneapolis, MN 55408, (612) 824-0724.

Steps to Home Ownership
Attitudinal study of private renters in Cleveland, 89 pp., March 1994.

The Community Stabilization Project: Tenant-Directed Housing Preservation
$8.50.
Rainbow Research, Inc., 621 West Lake Street, Minneapolis, MN 55408, (612) 824-0724.

Published by the Federal Reserve Bank of New York. A resource for small businesses, for organizations that assist them, and for lenders that target the small business market. Describes sources and types of financing, business plans, and the compilation of financial data for applications.

Call the Federal Reserve Bank of Minneapolis, (612) 340-6935.

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Loan Closing: A Workbook on Executing the Documents and Transferring the Funds
For lending staff and volunteers of community-based organizations. $10 each or $25 for set of 3.
Neighborhood Reinvestment Training Institute, 1325 G Street NW, Suite 800, Washington, DC 20005, (800) 438-5547. ©
Community Dividend covers topics on community reinvestment and neighborhood lending. It reaches financial institutions, community-based organizations, development organizations, and government units throughout the Ninth Federal Reserve District.

We welcome your questions and concerns. Please write or call:

David Bland, Manager
Community Affairs, BSD
(612) 348-2067

Federal Reserve Bank of Minneapolis
P.O. Box 291
Minneapolis, MN 55480-0291

Address changes/additions:
Deb Stier: (612) 340-6935

Editor: Nettie Pignatello

October 26
Rapid City, SD: "Lending in Indian Country." Sponsor: Community Affairs section of Federal Reserve Bank of Minneapolis. Contact: (612) 340-6935.

November 2–3
Kansas City, MO: "Credit and the Economically Disadvantaged: A Focus on Credit and Culture."

November 3–4

November 3–5
Hartford, CT: 1994 National Community Land Trust Conference. Sponsor: Institute for Community Economics. Contact: (413) 746-8660

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