

## **Advancing Regional Equity: The Second National Summit on Equitable Development, Social Justice, and Smart Growth**

Welcoming remarks delivered at the Advancing Regional Equity Summit  
Presented by Anthony M. Santomero, President  
Federal Reserve Bank of Philadelphia  
May 23, 2005

It is a pleasure to be here today, and on behalf of the Philadelphia community I want to offer you a warm welcome to the City of Brotherly Love. It is heartening to look out at all of you and know that so many people are committed to the important goals of equitable development, social justice, and smart growth. Thank you for coming and thank you for your support of the many projects that members of this group have funded for the communities and community groups looking to make a difference.

### **The Role of the Federal Reserve in Advancing Regional Equity**

For those of you not familiar with the Federal Reserve, our sponsorship of this conference may seem somewhat unexpected — indeed, perhaps even a bit incongruous. Many of you may be wondering why this topic is of interest to us.

The ambitious agenda of the groups assembled here today intersects with the interests of the Fed in a number of ways. Our goal of fostering economic growth encompasses every part of the American economy — all regions, all communities, and all income levels. Like you, we believe that all members of society should have the opportunity to share in prosperity, and we wholeheartedly support efforts to advance the economic growth of our diverse regions.

In addition, we also share your interest in promoting regional equity, because we are congressionally mandated to ensure the fair and equitable treatment of consumers. We preserve the integrity of the financial system by overseeing the industry's compliance with many consumer protection laws. I am sure you are familiar with many of the regulations we advocate and enforce, among them the Equal Credit Opportunity Act, the Truth-in-Lending Act, and, of course, the Community Reinvestment Act. These laws help us advance the cause of fair and equal access to financial services across all our local communities.

Moreover, as part of our commitment to this mandate of economic equality, the Philadelphia Fed offers programs through its [Community Affairs Department](#) aimed at helping consumers make better financial decisions and achieve economic success.

In many of the communities in our great country, the goals of homeownership, higher education, and a comfortable retirement are readily attainable. However, in low- and moderate-income communities — often areas without adequate resources and often the targets of unscrupulous business practices — the Fed helps people develop the skills to understand risks and evaluate alternatives. In classrooms, too, we help young people understand the workings of the economy and the financial system.

In short, we at the Fed consider it a vital part of our business to support programs that help all people participate fully in a region's economic growth. And that includes residents of low- and moderate-income communities, often located in our cities. For this segment of the population, topics such as economic development strategies, job creation techniques, and credit availability are all relevant and important. Sometimes simply knowing how similar problems are solved in other cities adds insight and instills confidence in those facing what at times seems to be an exceptionally challenging environment. To bring some of these ideas to the forefront, we support events such as the one that brings us together today.

### **Trends Affecting Regional Equity**

As an economist, I might add that this event and your broad topics of economic development and smart growth are particularly timely — given the developments taking place in cities across the nation. As I am sure you are aware, central cities are booming and older downtown areas, as well as ring neighborhoods,

are in a period of resurgence and renewal. This is a good and positive trend for the economy as a whole, and it is also one that can work in favor of the development goals this conference espouses.

Let me explain why. Stated simply, rising real estate prices have created conditions in which building costs are significantly less than going market values. That means it now makes good economic sense to develop, redevelop, and revitalize many neighborhoods that had fallen into decay and disrepair. The key is to leverage this opportunity for the benefit of all – both those attracted to these neighborhoods by new opportunities and those who lived there through tougher times.

The current state of the real estate markets has created a unique opportunity and a powerful incentive for a renaissance in America's urban centers. In places like Boston, Chicago, Pittsburgh, and Seattle, downtowns are experiencing a revival. In fact, it is quite fitting that your conference takes place in Philadelphia, for our nation's birthplace has been a shining example of such well-timed revitalization.

For those of you from out of town, I hope you will have the opportunity to visit some of our great historic sites and to experience some of our city's rich culture. Today, our vibrant downtown offers a host of events and activities. But it wasn't always so.

A little over a decade ago, the city was near bankruptcy. Taxes had been raised an astounding 19 times in 11 years. During that same period, the city had lost 4 percent of its population. Research published by our own Federal Reserve Bank estimates that Philadelphia lost more than 200,000 jobs to its wage tax in the past three decades. As a consequence, the lion's share of job creation in the booming services sector has been outside the city.

On top of this, construction costs within the city were considerably higher than elsewhere, whether another urban center or an adjoining suburb. Even as recently as 2000, Philadelphia had the sixth highest construction costs among the 50 largest markets in the nation — 20 percent above the average. The result was a situation in which construction costs exceeded market values, plaguing growth in city centers and precipitating a further decline in both jobs and population in the city itself.

The result of all these factors was that commercial construction within the city limits was stagnant, and many of our neighborhoods as well as the older ring suburbs were in decline. This in turn led to an outmigration of residents, particularly the middle class, putting quite a burden on the city's finances and its local amenities.

Yet, despite these challenges, this city has been charting a new course.

Philadelphia, with the third largest residential downtown in the nation, has been able to capitalize on a city center revitalization trend. Even as Philadelphia, as a whole, was losing 4 percent of its population in the last decade, Center City itself grew by 5 percent. With this population growth, and subsequent increased demand for housing, the city has experienced an increase in homeownership and rising home values.

With the strengthening of the residential real estate market, the city has finally been allowed to enjoy conditions in which market values of housing exceed replacement or construction costs. Now, it is once again profitable to renovate and build new housing. Indeed, residents are willing to pay a premium for urban living. Home prices appreciated an average of 16 percent per year in the second half of the 1990s. More remarkable, in southwest Center City, sales prices increased by 120 percent. Our residential markets have dramatically outpaced the rest of the region.

In addition, the city of Philadelphia's decision to approve a 10-year tax abatement for new construction and conversion of vacant commercial property to residential use helped spur developers' interest, enabling them to create new housing opportunities for both moderate and higher income households.

A variety of factors have contributed to Center City's revitalization: a clean and safe downtown, the national economic expansion, and enhanced amenities, to name just a few. However, our housing boom has perhaps had the most powerful effect on our ability to attract new residents and, more important, retain them as their families and income evolve.

## **Revitalization and Regional Equity**

As Philadelphia and its urban counterparts around the nation herald a new wave of city center revitalization, an environment conducive to the goals of smart growth is created.

Reinvesting in, reinventing, and rejuvenating our urban centers, again making them competitive and desirable places to live and work, does not just benefit city dwellers. Revitalization benefits the entire regional economy. Revitalization increases density in urban areas, and this density in turn brings about new opportunities. The ultimate goal of revitalization is to create a multi-income/multi-use metropolis in which all members of society participate and benefit.

This improved quality of life generates externalities that help everyone. These opportunities arise in the form of better jobs, an enhanced quality of life for all our residents, and the financial capacity to provide better social services. In addition, incentives can be offered for companies to reclaim old industrial real estate, create local jobs, and add value to existing neighborhoods. State and federal programs can also leverage private-sector funds to help finance the reclamation of industrial property for new development, such as needed residential housing.

The financial community here, and across the country, is poised to help — not just because of its Community Reinvestment Act obligations. Banks, too, have a vested interest in strong, stable communities, for banks can thrive only when the communities they serve are healthy. Indeed, collaboration can have powerful results. And sowing the seeds of urban revitalization can reap real rewards.

Reinventing central cities and neighborhoods in metropolitan regions and improving the quality of life can help draw residents, businesses, and investors back to those areas. Here in Philadelphia, as in the aforementioned Boston, Chicago, Pittsburgh, and Seattle, old industrial sections are being redeveloped into residential areas. This entices the migration of all income groups back into our urban centers to invigorate the economy and effect positive changes in our cities.

At the same time, however, a city's revitalization efforts can at times threaten its residents' way of life. Ironically, an increasingly robust regional economy can exert pressure on low- and moderate-income communities, forcing residents to be displaced. Fortunately, many of the groups assembled here today work hard to provide resources to help these residents and allow them to become active contributors to their region's revitalization efforts.

And to this end, we meet at a particularly opportune time. The confluence of a housing boom and a social trend encouraging re-migration into America's cities has made the concepts of smart growth and urban renewal economically feasible. We must take advantage of this unique opportunity for the betterment of all those who live and work in our nation's cities and their environs.

## **Conclusion**

With this, let me conclude. As you have no doubt gathered from my remarks today, I believe smart regional growth increases well being and economic security for everyone. Smart development that includes regional equity, community development, and a regional commitment to all our citizens allows consumers to contribute to vital, thriving communities, further fostering economic growth and development. And this results in more productive, fulfilling lives for individuals and families — and, in turn, more vibrant, economically stable neighborhoods and communities.

If we want our efforts toward regional equity to be successful, we must commit to working toward our shared goals. It is through our mutual commitment to a prosperous and participatory society and economy that we will integrate and unify our disparate ideas and cultivate a climate of growth, equity, and prosperity in our regions.

The next day-and-a-half will undoubtedly provide much valuable information on advancing regional equity. I thank you for your participation and contribution.