The Great Real Estate Reset

A data-driven initiative to remake how and what we build

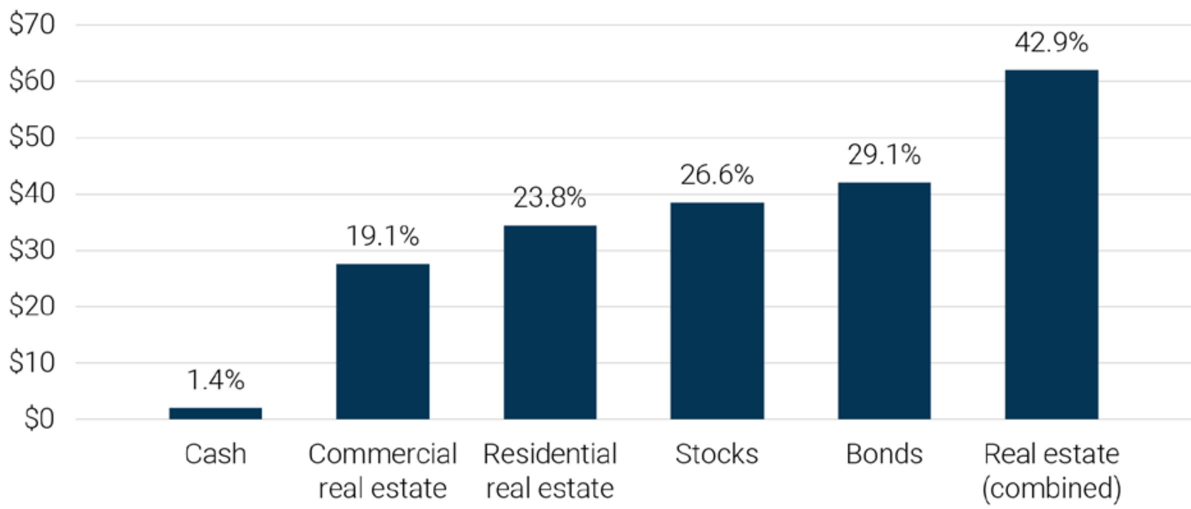
The Brookings Institute, by Christopher Coes, Jennifer S. Vey, and Tracy Hadden Loh

Introduction

Real estate plays a defining role in the American economy. It is by far the largest asset class in the United States, comprising over 40% of private assets nationally, followed by bonds, stocks, and cash (Figure 1). But we invest—and reap—far more than wealth from what we build. Our built environment is an expression of health, innovation, community, and culture. It is a physical reflection and embodiment of the human experience, its values, and its aspirations—and the ways they have evolved over time, for better and for worse.

Figure 1. Investment asset classes by size

In billions as of third quarter, 2020



Source: Brookings analysis updated and expanded from Ghent et. al. 2019 using data from the Federal Reserve, the World Federation of Exchanges, and the Securities Industry and Financial Markets Association.

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Real estate is cyclical. Industry players are accustomed to periodic market resets, where credit tightens, demand is weak, and the construction sector sheds jobs. During these "resets," some combination of time, bailouts, and corporate pivots ushers in the next cycle of growth. The current cycle began with a reset triggered by the subprime mortgage lending crisis and subsequent Great Recession of 2007 to 2009. Today, the industry is overdue for its next reset—but this one is different.

For generations, the presumptive American real estate consumer has been a middle-class white family—a fact that is reflected in the products, pricing, planning, and public policies that form the baseline of industry practice. But today, five converging trends are disrupting this market fundamental: persistent segregation by race and income, the demographic transformation of America, destabilized regional housing markets, the future of work, and disruptions to the retail ecosystem. Thus far, the real estate industry has only responded at the margins to these trends. If we continue "business as usual," the real estate industry risks not only another market crash, but also becoming a central contributor to the deterioration of American political and social cohesion.

The American real estate industry can create communities of opportunity—or face a future both figuratively and literally underwater

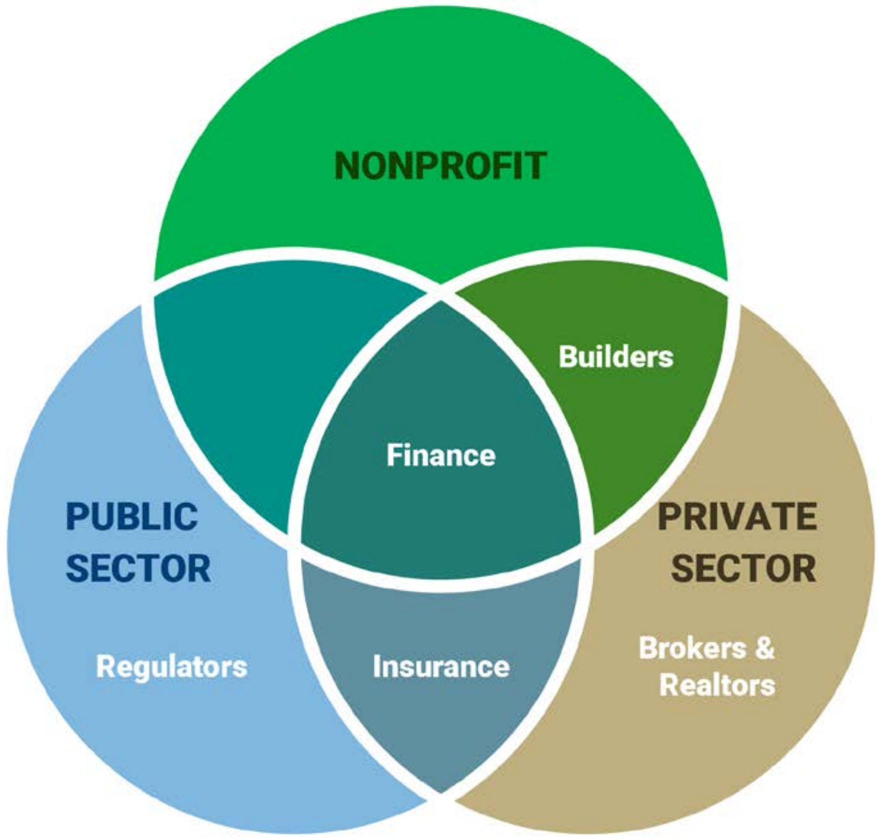
The intersecting crises of 2020—the COVID-19 pandemic, subsequent economic recession, racist police brutality, and climate-induced catastrophe—are exposing and accelerating economic and fiscal fragility, environmental vulnerability, and deep inequities that have been mounting for decades. These crises were born in no minor part out of land use and investment patterns—heavily influenced by discriminatory policies, industry practice, and toxic cultural attitudes—which prioritized profits over stewardship of the asset class that is literally the building blocks of our economy and society.

Yet these crises are occurring at a time when the demand for communities that are more prosperous, resilient, and equitable is on the rise. For years, anger over persistent racial and economic segregation and disinvestment, demographic shifts, and changes in where and how we work and shop have been shifting both needs and preferences for housing, retail, and office space—not only in terms of *what* gets built, but also *where* and *how* buildings cluster and connect with one another in place.

But despite mounting signs and evidence, the real estate industry—from local developers to Wall Street financiers—has remained structurally unprepared to meet this demand. Instead, the industry has remained deeply entrenched in or beholden to financial, legal, and professional institutional frameworks that pick winners and losers—to the detriment of the greater American society. This, in turn, has left too many communities one Hurricane Katrina (climate crisis) or one global pandemic (COVID-19) away from economic disruption and fiscal deterioration, hampering their collective ability to fully recover and making them all the more vulnerable to future calamities.

All this provides both an imperative and an opportunity for the real estate industry—supported by policymakers—to reimagine our built environment and reset current policy and practice toward that vision. To this end, these leaders must recognize the need to create more "communities of opportunity"—with full appreciation of the fiscal, social, and environmental benefits that doing so will yield for cities and regions. More than that, they need to embrace their role and responsibility in shaping that future.

Figure 2. Who is the real estate industry



Source: Author.

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WHAT ARE "COMMUNITIES OF OPPORTUNITY"?

"Opportunity Communities" are a model developed by the Kirwan Institute at the Ohio State University, which have been mapped in multiple U.S. regions through a partnership with Department of Housing and Urban Development's (HUD) Sustainable Communities Initiative under the Obama administration. The model is holistic and flexible to local values regarding what matters most and how to measure what makes a neighborhood a great place to live, but the core concept is that communities of opportunity are places that have decent housing that most people can afford; have proximity to jobs; are multimodal, meaning walkable and transit-accessible; have quality public schools; and are healthy and resilient, with green space, access to food, and manageable disaster vulnerability.

The Great Real Estate Reset initiative

This initiative presents and describes the major forces that have pushed the industry toward this moment, and then will seek to articulate the practices and policies the industry and the public sector must adopt in order to successfully meet it.

We begin by describing five sets of structural market trends, and why they matter to our collective ability to create more prosperous, equitable, and resilient communities of opportunity. We will then kick off a collaborative effort to develop a "Real Estate Reset" playbook with partners inside and outside the industry, featuring a yearlong multimedia series that will articulate specific, actionable ideas for policy and practice reform.

- **Separate and unequal:** Persistent residential segregation is sustaining racial and economic injustice in the U.S.
- **Modernizing family:** America's demographics are transforming, but our housing supply is not.
- **Risky (housing) business:** Distorted and destabilized housing markets are pushing households into climate-risky, low-opportunity communities.
- **The office, reimagined:** The nature of office work is shifting, and so must downtowns.
- **Retail revolution:** The new rules of retail call for small business empowerment.

The goal of this joint Brookings-LOCUS initiative is to facilitate a more transparent and inclusive conversation in real estate that goes beyond talking to each other behind tiers of member-only paywalls. Through these discussions, it is our hope to present a new vision for industry practice that looks further than short-term gains or what's hot for the next quarter, and instead sets in motion a systemic transformation of the real estate ecosystem—one based on care and common sense consideration of our assets to nurture better outcomes for more people and places.

The authors thank Alan Berube, Joe Cortright, and Calvin Gladney for their excellent review and advice in shaping this series, and Christopher B. Leinberger for his inspiration.

Separate and unequal: Persistent residential segregation is sustaining racial and economic injustice in the U.S

The Brookings Institute, by Tracy Hadden Loh, Christopher Coes, and Becca Buthe, December 16, 2020

Very few Americans live in neighborhoods that are affordable, green, close to jobs, and racially and economically integrated—to the point where it is a relatively common view that such communities are an idealistic or utopian vision rather than an achievable goal or national necessity. While most Americans agree that our economic system favors the powerful, there is no broad consensus from the white majority that integration is essential to make our country more fair. Racial integration without economic integration—also known as gentrification—has consumed the urbanist movement with controversy.

A mountain of research and a world of common sense tell us that place matters. There are so many essentials to the American dream that are geographically constrained, and the only way to ensure that Americans of all races and incomes have a fair opportunity is to build a world where good neighborhoods are not scarce, expensive, and exclusive, and where all households can put down roots and keep them. The attributes of communities of opportunity—good schools, proximate jobs, retail amenities, and parks—are tied to place. We need more good places for more people.

Today, well over half a century since the civil rights movement fought for the principle that separate is inherently unequal, real estate industry practices and local public policies have not been held accountable for making very little progress on integrating our neighborhoods. If we want to see progress on inclusion and racial justice, the industry and policymakers will have to work together to dismantle these systems and replace them with ones that nurture opportunity and connection.

The trends

Generations of economic and demographic shifts—facilitated by public policy—have produced a hyper-segregated metropolitan landscape, enabling predatory lending structures in and devaluation of minority neighborhoods.

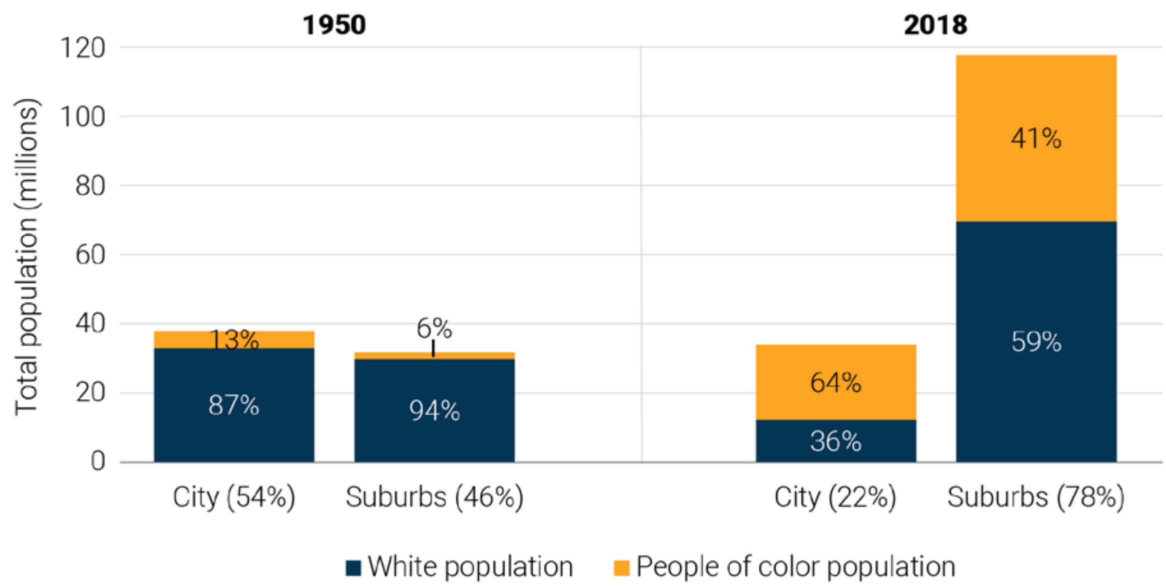
Federally subsidized suburbs created generational wealth-building opportunities for white people.

After World War II, loans guaranteed by the Federal Housing Administration and the Department of Veterans Affairs opened up the possibility of homeownership (and wealth-building) to millions of American households. However, these loan programs were explicitly structured to exclude Black people and to favor particular places: the newly minted suburbs.

In 1950, the 50 largest U.S. metro areas contained almost half of the country's population. These areas in aggregate were 90% white in that year (matching the nation as a whole), but the suburbs were even whiter, at 94%. As the civil rights movement opened up the prospect of integration, white flight to the suburbs only intensified, significantly increasing the spatial scale of racial segregation. Jurisdictional boundaries reinforced this segregation: Even as Black and immigrant populations began to move into suburban areas, they encountered the same exclusionary and segregationist zoning policies that created segregated cities and the first white suburbs years prior. The upshot of all this is that today, the vast majority of white people live in suburbs—and white people and people of color largely do not live in the *same* suburbs.

Figure 1. Regional distribution of population by race

Today's MSAs containing the top 50 U.S. cities by population in 1950 and 2018



Source: Brookings analysis of IPUMS USA, University of Minnesota.

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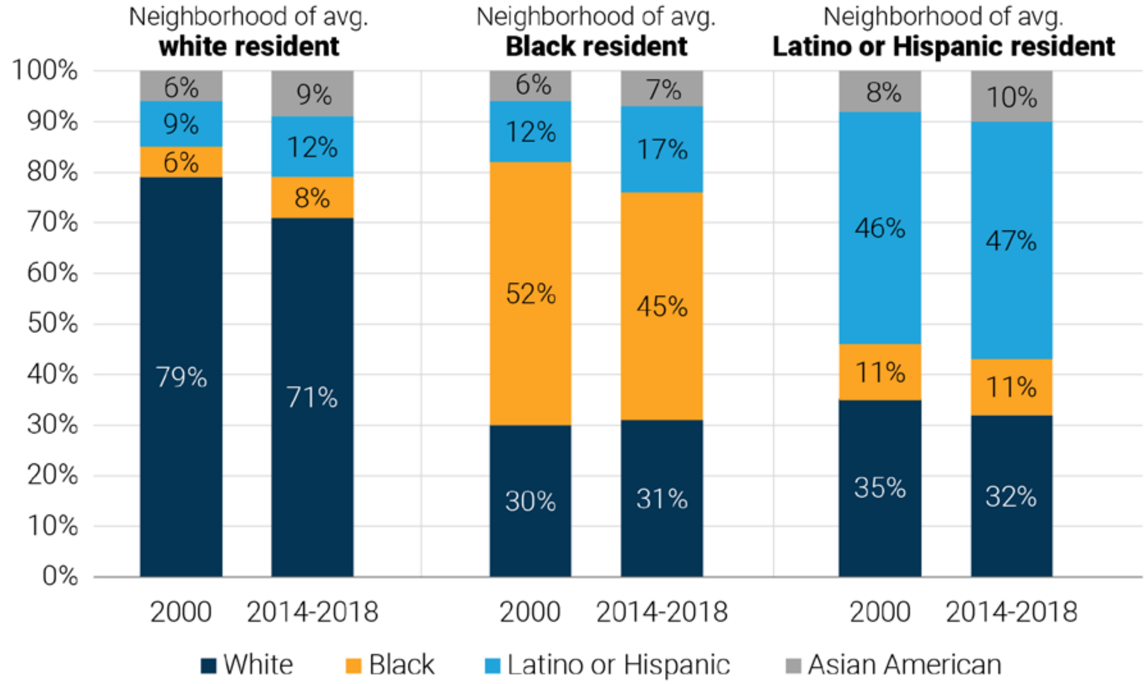
Even after decades of growing diversity and spatial mobility, most Americans still live in racially segregated neighborhoods.

From 1950 to 2018, the United States went from 90% white to 60% white. The U.S. has been becoming more multiracial rapidly in recent decades, with the total population of people of color increasing by 51% between 2000 and 2018, compared to a 1% increase in the white population.

All this change has yielded some progress on racial integration. As Figure 2 shows, the neighborhood of an average white resident in the 100 largest metropolitan areas became slightly less white between 2000 and 2018, decreasing from 79% white to 71%. More notably during this period, the neighborhood of the average Black resident crossed the threshold from majority-Black to a diverse plurality because of Latino or Hispanic population growth. Still, while our cities and regions are becoming far more racially and ethnically diverse, segregation has remained persistent.

Figure 2. Race-ethnic makeups of average neighborhoods of different groups in metro areas
2000 and 2014-2018



Source: William H. Frey analysis of 2000 Census and 2014-2018 multiyear American Community Survey.

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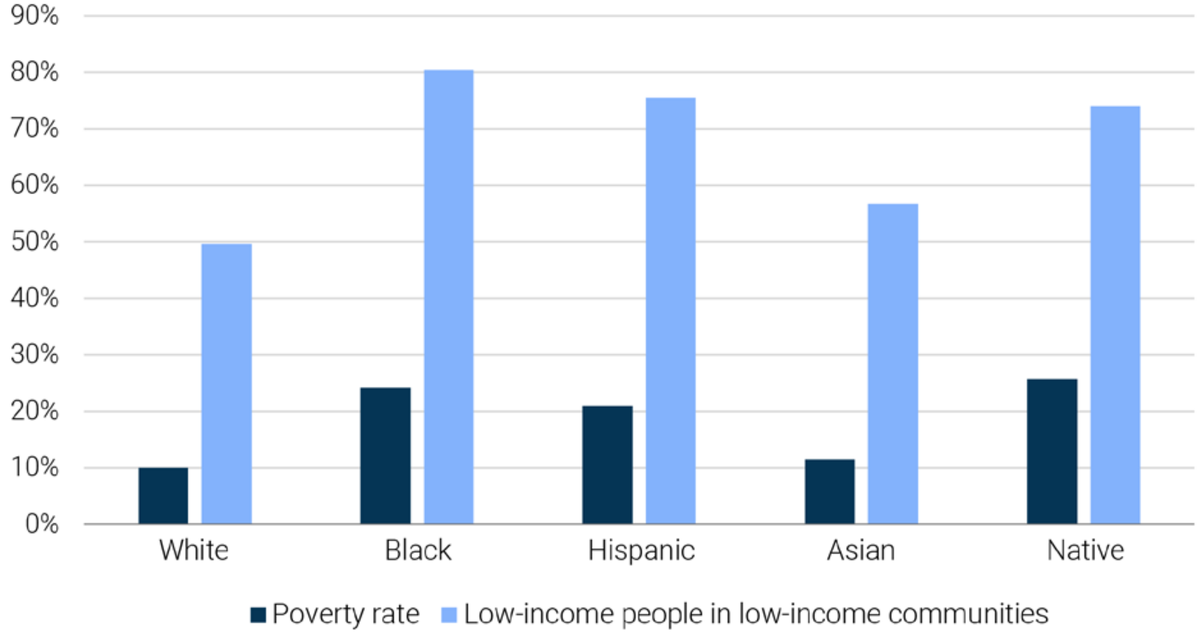
Suburbanization has also segregated the nation's neighborhoods by income.

By enormously expanding the footprint of the American metropolitan settlement, suburbanization created a patchwork of communities built by design to be spatially sorted by income. Both modern zoning and the scale of modern housing industry production have channeled a century of growth into different types of housing rigidly segregated in space. Growth at the subdivision scale, instead of by parcel or by block, created and catapulted to dominance an unprecedented urban form: communities where detached single-family homes do not share a property line or road access with anything but other single-family homes. Thus, those who can afford those homes do not see or share space with households outside their real estate market bracket. The allocation of low-income housing tax credits, housing vouchers, and the siting of public housing also contribute to today's unprecedented isolation of low-income people of color.

Nationwide, over 80% of low-income Black people and three-quarters of low-income Latino or Hispanic people live in communities that meet the federal statutory definition for "low-income" communities. This is in contrast to just under half of low-income white people. These patterns have long been evident in center cities, fueling tremendous political tension between a small number of very wealthy, mostly white neighborhoods and low-income communities of color with their own needs and priorities. But such patterns are repeating themselves in suburbs, too, with the increasing concentration and isolation of low-income residents now the most common form of neighborhood change in these jurisdictions as well.

Figure 3. Not all low-income people live in low-income communities—the rate varies by race



Source: Kim and Loh, 2020. Data from the 2018 American Community Survey, 5-year estimates.

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Segregation enables the real estate finance industry's predatory targeting of Black and brown neighborhoods.

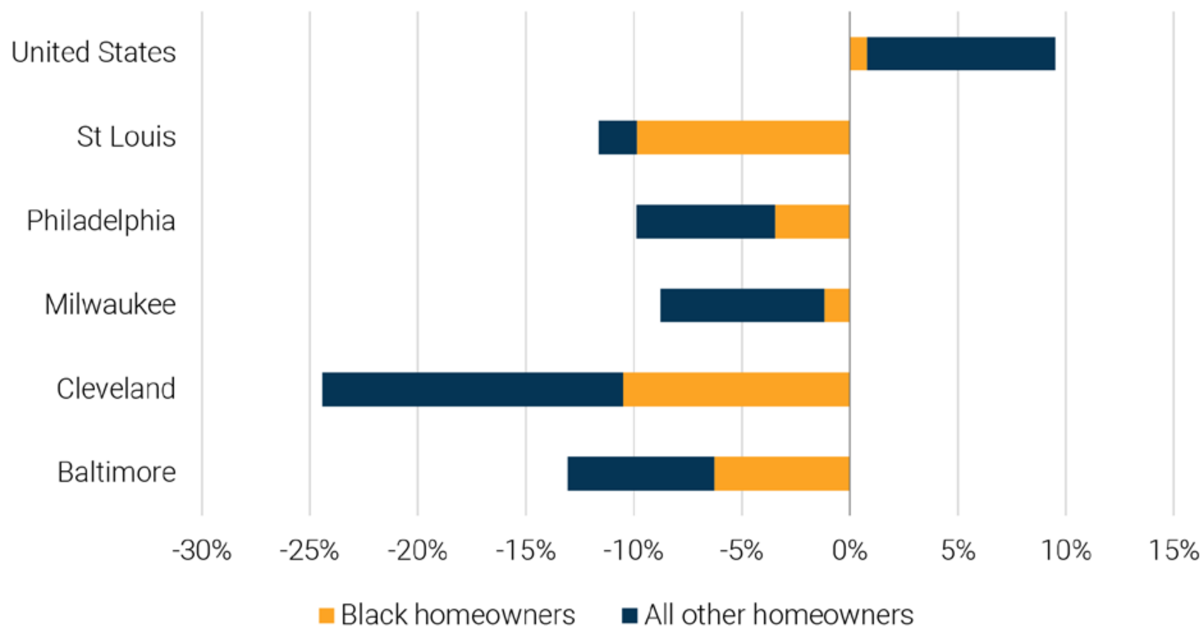
The real estate finance industry has consistently exploited and exacerbated segregation since World War II, beginning with excluding Black neighborhoods from eligibility for homeownership or rehabilitation loans—a practice known as redlining. And throughout the civil rights era, the industry exploited, reinforced, and worsened segregation through other racist lending practices.

Most recently, there is widespread evidence that the real estate finance industry targeted Black and Latino or Hispanic neighborhoods with subprime loan products, committing "reverse redlining" in the years leading up to the 2008 financial crisis. As a result, foreclosure rates between 2005 and 2009 were an estimated 3.5 times higher in Black neighborhoods than in white neighborhoods, and 2.7 times higher in Latino or Hispanic neighborhoods. The cumulative outcome of decades of predatory lending practices—in combination with other economic trends—is a dramatic erosion of homeownership, concentrated in "middle neighborhoods" and legacy cities (Figure 4).

Suburbanization, particularly in slow-growth regions, has had a destabilizing effect on housing values in predominantly Black neighborhoods. But undervaluation is not only a function of low demand. Rather, systemic bias in lending and appraisals are among the reasons that Black neighborhoods are significantly devalued relative to predominantly white neighborhoods. Analysis by Andre M. Perry, Jonathan Rothwell, and David Harshbarger revealed that after controlling for differences in housing quality and various neighborhood characteristics, homes in majority-Black neighborhoods were valued 23% lower than homes in neighborhoods with few or no Black residents.

Figure 4. Change in the number of owner-occupied housing units

2000 and 2018



Source: Updated and expanded from Mallach, 2018. Data from the 2000 census and 2013-18 American Community Survey 5-year estimates.

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Why these trends matter

Public policy and industry practice have produced a separate and unequal landscape of American neighborhoods, propagating multigenerational negative impacts on health, social mobility, and wealth for people of color as well as harmful divisions in our economy and society.

These systemic inequities have most recently been exposed by COVID-19's disparate impacts along lines of race and ethnicity. Nationwide, Black people are dying at 2.4 times the rate of white people—the result of the inequitable living conditions, work circumstances, underlying conditions, and lower access to health care that characterize segregated neighborhoods.

But the impacts of segregation extend much further than COVID-19. Segregation has made it possible to geographically target—as well as withhold resources from—minority communities through a host of negative policies and practices, including overpolicing, underinvestment, and devaluation. These are forces that impede wealth accumulation and halt social mobility. As of 2016, the median net worth among white families was 10 times that of Black families, and more than eight times that of Latino or Hispanic families.

These racial wealth differences are not simply due to familial or inheritable differences—they are the result of a community context with worse access to education, employment opportunities, health care, and open space. For example, Black students are seven times more likely than white students to attend high-poverty schools with a high share of students of color, which have been consistently linked to lower academic achievement levels. Black urban neighborhoods are literally hotter, sometimes by 10 degrees Fahrenheit or more. And Black entrepreneurs—including those in real estate—have less access to capital (such as the Paycheck Protection Program) in part due to racial prejudice and ongoing redlining by business lenders and the appraisal industry. Because of that, Black small businesses owners are more likely than their white counterparts to use personal savings and finances (including home equity) to start businesses—repeating segregation's loop of exclusion and discrimination, where Black people face barriers to homeownership and wealth-building in communities of opportunity.

Beyond the direct effects on individuals and families, race- and income-based segregation has long-term, negative impacts that affect *all* residents of a community. A 2017 report from the Urban Institute and Chicago's Metropolitan Planning Council found that higher levels of racial segregation are associated not only with lower income levels for Black people, but also lower educational attainment for both white and Black people, as well as lower levels of public safety for all residents of an area. Similarly, Perry and his colleagues document a $156 billion cumulative loss from the devaluation of homes in Black neighborhoods—money that would otherwise be circulating in local economies. As law professor Sheryll Cashin observed, this "segregation tax" is also costly to white people, who pay extreme price premiums to live in exclusive neighborhoods. McKinsey & Company estimates that continued racial and economic segregation will cost the U.S. 4% to 6% of its GDP by 2028 due to its dampening effect on consumption and investment.

Whatever the calculations, policymakers and industry leaders need to take heed of these impacts and use their power to divest from the exploitation and exclusion of communities of color. Instead, they should actively invest in new policies and practices that will advance connection, integration, and prosperity for Black and brown people and places.

The authors thank David Edmondson for contributing the original concept design for Figure 1, DW Rowlands for assistance in creating Figure 1, and Andre M. Perry and Alan Mallach for their insightful reviews and feedback.

Modernizing family: America's demographics are transforming, but our housing supply is not

The Brookings Institute, by Evan Farrar and Tracy Hadden Loh, December 16, 2020

The types and distribution of household structures in the United States have been evolving for decades. Consequently, we are now at a tipping point where our households and our housing inventory have become a round peg struggling to fit in a square hole.

Recent media coverage has presented these changes—such record numbers of adult children living with their parents—as the result of the pressures and preferences of the millennial generation. However, the decline of two-parent households with children and the rise of other family structures began with the coming of age of the first baby boomers in the second half of the 1960s, and continues today as that generation retires and seeks new living options.

These changes in the organization of American households have fundamental implications for the real estate industry and policymakers. As households change, so too must industry and public sector leaders by providing a broader range of housing choices that meets new demands—and creates more affordable, stable, and diverse communities in the process.

The trends

Over the past few decades, several significant demographic shifts have changed how and where Americans live. But the nation's housing supply hasn't kept up with demand.

The so-called "nuclear family" is no longer the dominant household structure.

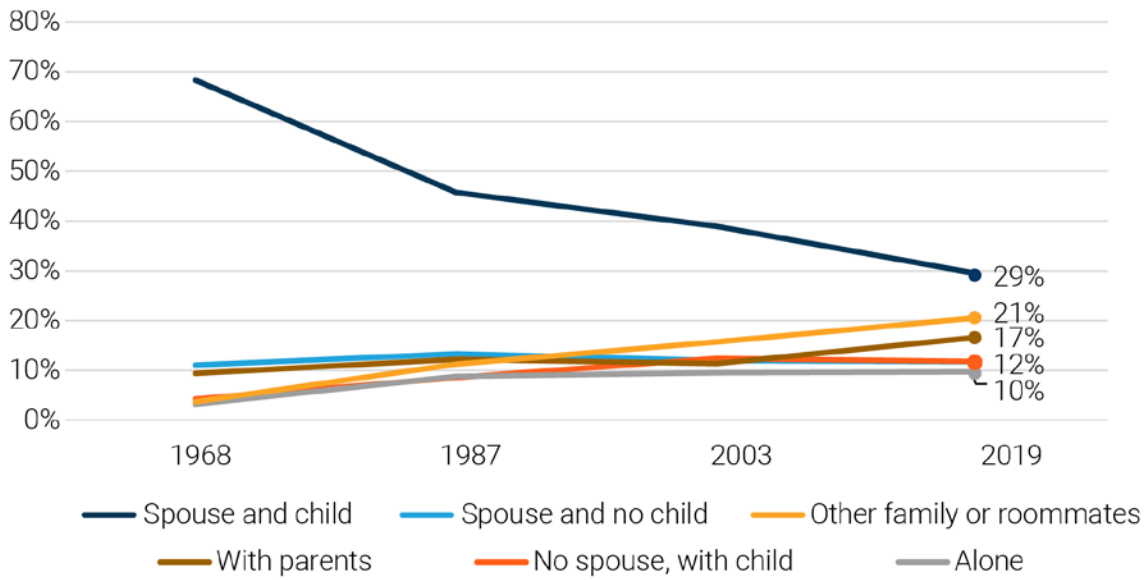
American family life is changing. Marriage rates have been steadily declining since 1980, and in 2018, the nationwide fertility rate hit an all-time low of 1.73 births per woman. As a result, household structures have shifted dramatically. In 1968, married couples with at least one child comprised nearly 70% percent of all households; by 2018, that share had fallen to less than 30%. At the same time, fewer than half of U.S. children are growing up in households led by two married parents in their first marriage. Single-parent households are now 12% of the total, up from only about 5% in the late 1960s.

Multigenerational and mixed family households have become more common, as Americans are increasingly "doubling up" to reduce housing costs.

While the prevalence of the nuclear family may be shrinking, the size of the average U.S. household is actually trending upward for the first time in over a century. From 1968 to 1987, the share of young people ages 23 to 38 living alone tripled, then plateaued at 10%. Meanwhile, the number of people in this age bracket living with siblings or other family members (i.e., not a spouse, children, or parents) or with nonrelated individuals grew steadily, rising from 5% to 21% of all households by 2019. One of the most significant recent trends has been the rising share of young adults moving back home: From 2000 to 2017, the share of nonmarried young adults living with their parents almost doubled, increasing from 12% to 22% due to high housing costs, tight credit, student debt, and other factors.

Figure 1. Household arrangements of Americans aged 23 to 38

1968 to 2019



Source: Brookings analysis of ACS and Census data via IPUMS USA, University of Minnesota, www.ipums.org.

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Our aging population is aging in place.

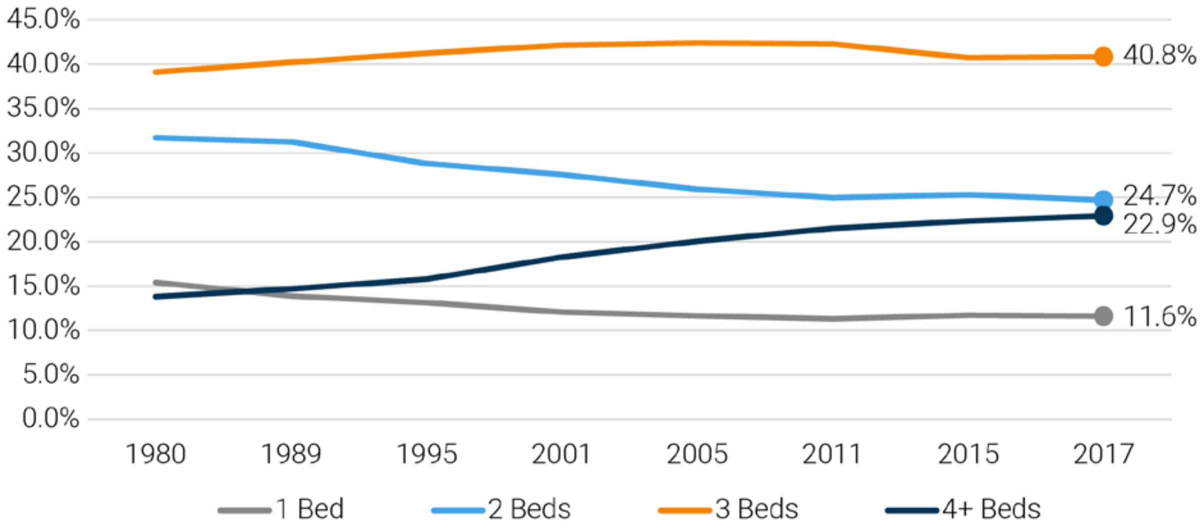
With the youngest baby boomers now 56 years old, the American population is aging rapidly. Americans over age 65 make up 16.2% of the total U.S. population, up from 11.5% in 1980. These numbers will continue to rise, such that households headed by someone over age 65 will comprise 34% of all households by 2038, up from 26% in 2018. Moreover, more than three in four Americans over age 50 express a preference for aging in place, citing affordability concerns and satisfaction with their current neighborhoods. The impacts of COVID-19 on care facilities may very well accelerate that trend.

Housing production across U.S. metropolitan areas hasn't kept up with changing demand.

The decline of nuclear families and the rise of multigenerational or group living arrangements and aging in place are deflating demand for new single-family homes. Yet, the real estate industry—operating under restrictive zoning compacts—is still catering to the traditional nuclear family household by continuing to systematically undersupply small units (particularly one-bedroom units) in favor of constructing large single-family homes. Nationwide, the very largest houses (four or more bedrooms) have grown as a share of inventory while all smaller configurations have stagnated or declined (Figure 2).

Figure 2. Nationwide housing inventory by number of bedrooms

1980 to 2017



Source: Brookings analysis of American Housing Survey data.

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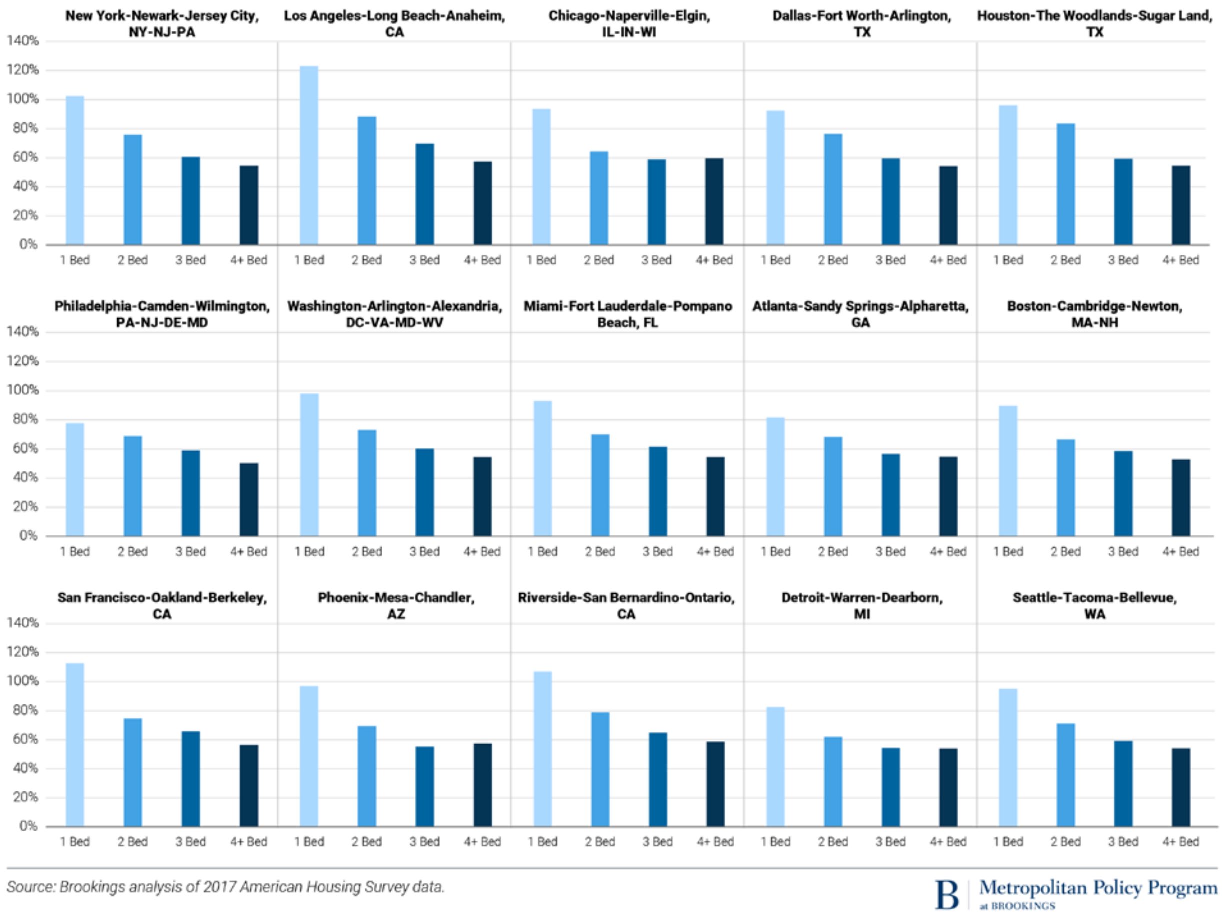
The trends are particularly stark in the nation's largest metro areas. Since 2013, units with four or more bedrooms have comprised almost half of housing inventory growth on average across the 15 biggest regions, while one-bedroom units have accounted for just 16.7% of such growth (Figure 3). Households in these high-cost, high-growth areas need smaller units. Based on HUD's housing unit capacity standard of 1.5 people per bedroom, in all 15 of these metro areas, one-bedroom apartments are within 20% of full capacity on average, while they are *over* capacity in New York, San Francisco, Los Angeles, and Riverside, Calif. Meanwhile, units with four or more bedrooms in these areas are at just 55% capacity on average. This means that bedrooms in big houses are sitting empty while households wedge themselves into the smaller units that they can find—a fundamental mismatch between the inventory we have and what households need.

Figure 3. Percentage capacity filled by number of bedrooms
Top 15 metropolitan areas, 2017



Source: Brookings analysis of 2017 American Housing Survey data.

Why these trends matter

Changing demographic and household trends warrant transformative shifts in how the real estate industry approaches the supply of new housing. The industry's response to these trends will have broad implications on housing choice and mobility for both younger and older generations.

Today's under-40 population is a major driver of housing demand, with different needs and preferences than their predecessors. Millennials—those between the ages of 24 and 39 in 2020—are a market-shaping demographic simply by virtue of the fact that they are the largest generation by population. But for the credit-strapped, newly graduated young adult, buying a single-family "starter" home is no longer a financial possibility (nor always an aspiration, for that matter). Even for millennials that can afford to purchase a single-family home, homebuying is likely a bad investment, since the current supply of single-family homes does not match the desires nor the arrangements of millennial households.

All this means that while young people battle over the few available homes that suit their needs and preferences, older adults will be unable to sell their homes to the emerging generation of would-be homeowners. Even putting aside the generational mismatch in preferences and geographic location, the basic math does not bode well for the housing market: Seniors exiting the market will greatly outnumber young homebuyers, leaving 15 to 18 million surplus homes on the market. Most of the homes left will be large-lot, multi-bedroom homes—precisely the type of housing stock that markets in major metropolitan areas continue to oversupply.

Moreover, in predominantly catering to the traditional nuclear family, the real estate industry is continuing to serve the interests of white households over Black and brown households, for whom the suburban single-family home is often more a symbol of profound exclusion than something attainable. Homeownership among Black and Latino or Hispanic households significantly trails that of white households, and people of color are far more likely to be first-time as opposed to repeat homebuyers than white people. In part, this is because a mass of housing inventory weighted against starter homes disproportionately favors households with higher concentrations of generational wealth to pay bigger down payments. Over 6 million Black and brown millennials would be considered mortgage-ready if there was any attainable product for sale in prime locations.

In short, the business-as-usual approach to homebuilding has a wide range of negative impacts, demanding that real estate professionals and policymakers embrace a new framework and vision focused on providing greater housing options both through retrofits to existing priority neighborhoods and through new developments. This framework must include regulatory, finance, and design tools that create more—and more affordable—choices for people of all ages, races, and family sizes and mixes.

The authors thank William H. Frey for his helpful review of this piece

Risky (housing) business: Distorted and destabilized housing markets are pushing households into climate-risky, low-opportunity communities

*The Brookings Institute, by Christopher Coes, Tracy Hadden Loh, and Tola Myczkowska, Dec*ember 16, 2020

The United States is the second-largest producer of carbon dioxide emissions globally—the effects of which are coming home to roost, quite literally, in our own backyards. Climate change is already impacting every region of the United States, with serious consequences for real estate and infrastructure, including property damage from extreme weather events, lost habitable land due to flooding, extreme heat, and dwindling water supplies.

But our built environment isn't merely suffering from these challenges—it's also contributing to them. Decades of low-density, auto-centric development—fueled by restrictive land use regulations—have been increasing transportation-induced emissions and restricting people's ability to live in communities with low environmental risks and high economic opportunity.

Climate change's growing and varied risks have near-term implications for the market viability of the real estate industry's dominant financing and development models. Over the longer term, a failure to mitigate these risks will fundamentally reshape global economies, upend social and cultural ecosystems, and redefine the human experience in the built environment for generations to come.

The trends

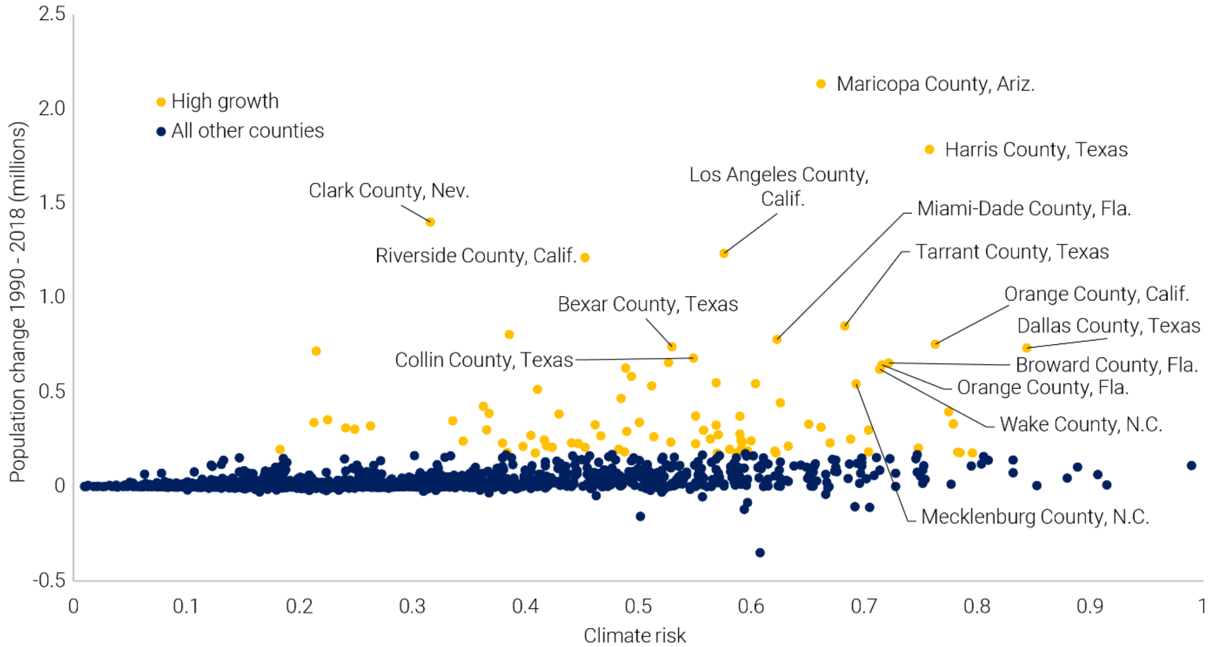
Over the past century, a number of economic factors, demographic shifts, and land use decisions have dramatically increased both our emissions and climate risks, while at the same time making living and working in communities of opportunity increasingly unattainable.

The U.S. is growing the most in the places that are most vulnerable to climate change.

For the last 60 years, U.S. economic and population growth has coalesced around the nation's biggest metropolitan areas, leaving the rest of the country and its small communities behind. The innovation economy has fueled the migration and concentration of the college-educated young adult millennial generation and baby boomers to tech-centric and "outdoorsy" cities like Seattle and Denver, as well as better-weather destinations across the Sun Belt.

In 2017, the Environmental Protection Agency (EPA) released estimates of U.S. county-level climate change risk (Appendix A). When contrasting population growth with climate risk, high-growth counties (largely the biggest metro areas in the Sun Belt and along the coasts) stand out as higher-risk (Figure 1). Just 88 out of 3,141 counties in the 50 states and Washington, D.C. account for half of U.S. population growth since 1990, and their median climate risk is 3.2 times higher than the risk of the remaining U.S. counties.

Figure 1. County population change by climate risk



Source: Brookings analysis of 1990 decennial census, 2014-2018 American Community Survey 5-year estimates, and EPA CRSI risk scores by county.

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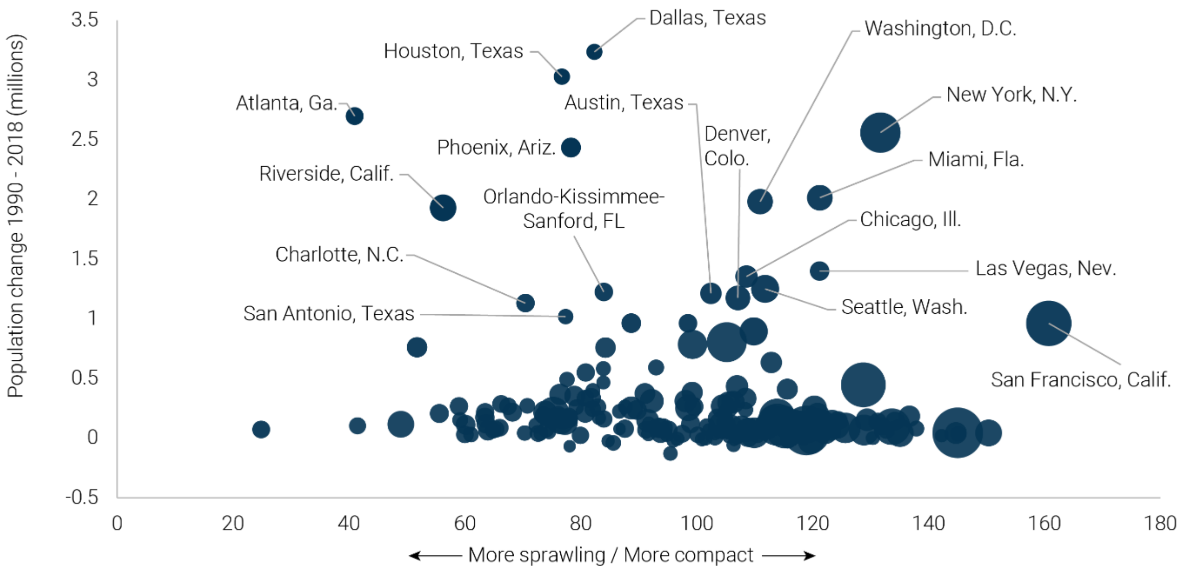
Sprawl has enabled many high-growth metro areas to control housing costs, because residents can "drive until they qualify" for a mortgage, as in the Sun Belt metro areas of Dallas-Fort Worth, Houston, Atlanta, and Phoenix (Figure 2). However, in extremely high-cost, growing California metro areas, first-time and moderate-income homebuyers are driving past the urban fringe into areas most vulnerable to wildfires. Solving the puzzle of accommodating dense growth with attainable housing is critical work for building climate resilience.

Figure 2. Most high-growth metro areas are sprawling, but not all

Bubble size is housing price-to-income ratio



Source: Brookings analysis of 1990 decennial census, 2014-2018 American Community Survey 5-year estimates, 2014 Sprawl Index from Smart Growth America, and CBSA housing price-to-income ratios from Murray and Schuetz 2018.

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The real estate ecosystem is streamlined to deliver sprawl—but demand is heading in the other direction.

There is a structural spatial mismatch between where we are building housing and new demand. Over the past several decades, land use and zoning regulations have favored the production of low-density, drivable suburban residential and commercial real estate. In high-growth metro areas, suburbanization continues because restrictive zoning ordinances have often made auto-oriented community design the only legal way to build and the easiest to finance using existing federal loan programs. Within many American cities, over 75% of residential land is zoned to exclude anything other than detached single-family homes—a number that climbs to 91% in many suburban communities.

We zone and build as though detached homes on big lots are everyone's first and only choice—but they're not. For the last 10 years, the number of college-educated young millennials living in dense, urban neighborhoods has increased by nearly one-third. This shift in demand toward density is likely to increase. A recent analysis combining results from a housing-preference survey conducted by the National Association of Realtors with household projections by tenure from the Joint Center for Housing Studies at Harvard University estimated that by 2038, 70% of American households will prefer walkable communities—areas where only about one-fifth of households live today.

Our development patterns are making climate change worse.

The predominant patterns of U.S. home construction are environmentally and fiscally unsustainable. The low-density nature of single-family suburban developments requires their residents to travel long distances—7 miles per trip on average—by car for work and leisure, such that these residents emit an estimated 12.2% more carbon dioxide per capita than their urban counterparts. Between 1990 and 2017, U.S. greenhouse gas emissions rose 22% (despite an 18%

increase in the overall fuel efficiency of the nation's vehicles) due to the sheer volume of our travel.

Today, the federal policy that guides how we design and spend money on our roadways incentivizes car trips over walking, biking, or transit and further encourages auto-centric development. New highways, roads, and lanes induce more driving, which leads to more emissions and ultimately more congestion—creating a very costly feedback loop we can't build our way out of.

By focusing on efficiency instead of resiliency, the real estate industry is missing a huge market.

Despite broad support for resiliency, industry and policymaker attention has been focused on improving energy efficiency in buildings and construction while still maintaining regulatory regimes and investment strategies that promote low-density development and automobile dependency. These actions largely ignore our growing exposure to a climate crisis that will put millions of residents and businesses at greater risk and set off a massive loss of assets and value too expensive for government-supported intervention or bailout.

Climate change is already escalating in cost to the built environment and worsening inequality. Sea level changes are only one dimension of this impact, which also includes droughts, high temperatures, floods, hurricanes, tornadoes, and wildfires, among others. Miami Beach, the most at-risk city to sea level rise in the United States, stands to lose over 58% of its habitable land to flooding by 2060, causing 30.2% of its population to become internally displaced.

Why these trends matter

Mass suburbanization and the climate crisis it has helped create have placed particular harm on low-income households and people of color (most of whom are not low-income), while putting deep fiscal strains on every level of government.

On the first issue, housing costs take up a far larger share of income for low-income households than for more affluent ones. At the same time, the need to "drive until you qualify" pushes these households to spend increasing shares of their annual income on transportation (16% in 2014, up from 9% four years earlier). Without the expansion of affordable local- and regional-serving public transportation options and location-efficient housing—particularly in high-growth areas—lower-income households are forced into lower-priced housing stock at the urban fringe where long, unpredictable travel times and the costs and risks of automobile dependency add further strain.

While the climate crisis will ultimately harm everyone, low-income households with the fewest resources to adapt are suffering the fallout first. Low-income Americans—the majority of which are renters—are already disproportionately experiencing the effects of climate change and extreme weather events. Our current system prices some environmental risk into housing costs, so low-income residents naturally find their way into cheaper, riskier housing. For example, lower-cost housing is often located in flood zones, where land is less expensive, structures are more vulnerable to sea rise, and there isn't enough infrastructure in place to protect buildings from flooding. Following Hurricanes Harvey, Irma, and Florence, 3.7 million Americans applied for Federal Emergency Management Agency (FEMA) assistance; slightly more than half (51.4%) of applicants reported annual incomes of less than $30,000, while 23% reported annual incomes of less than $15,000. This reactive disaster response does not get out in front of the challenge of protecting low-income households from global climate forces.

On the second issue of fiscal strain, our sprawling patterns of development are coming at a very high cost—for everyone. The federal government spends or commits over $450 billion annually on real estate through direct expenditures and tax and loan commitments, with a majority of those funds directed to single-family homeownership in auto-oriented, suburban communities. And in transportation spending, auto-oriented development patterns (by definition and design) require more roadways and other infrastructure overall per capita—the construction, operation, and maintenance of which increases the local fiscal burden, hampering both the financial flexibility and overall competitiveness of sprawling communities.

All this should serve as an immediate call to action for the real estate industry, lenders, regulators, and community innovators to produce far more attainable housing, while dedicating robust resources to retrofit and fortify existing neighborhoods before internal climate migration and economic disruptions escalate further. This will require reimagining the industry's future into one that yields greater fiscal, social, and environmental outcomes for more people and places.

The authors thank DW Rowlands for invaluable assistance in preparing Figure 1, Vicki Fanibi for her assistance in researching this piece, and Jenny Schuetz and Joseph W. Kane for invaluable feedback in shaping this piece.

The office, reimagined: The nature of office work is shifting, and so must downtowns

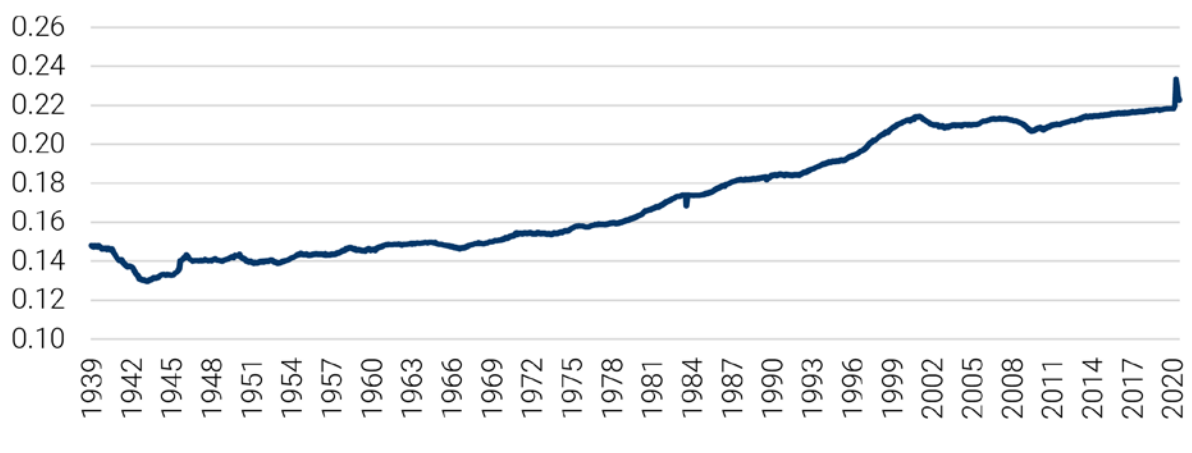
The Brookings Institute, by Tracy Hadden Loh, December 16, 2020

The COVID-19 pandemic is accelerating prior trends that have been redefining where, what, and how much office space the market demands. Most of the U.S. workforce does not work in an office—Americans are at work in kitchens, stores, factories, fields, classrooms, hospitals, and on the road, among other places. But office work is still growing. Finance, information, and professional services workers comprised over one-fifth of the pre-pandemic U.S. workforce, reflecting a gradual structural shift in the U.S. economy since World War II, when only 13% of the workforce was in those sectors. When looking at workforce shares by occupation, the office share across U.S. metropolitan areas is as high as 51%.

But technological advances—coupled with the changing needs of the modern economy—are causing the location and nature of office work to shift in profound ways. It is unlikely that the private sector can adapt to these new circumstances without significant negative externalities for both downtowns and suburban jurisdictions. This creates both an imperative and an opportunity for the public sector to advance transformative placemaking that makes communities more vibrant and fiscally sustainable.

Figure 1. Share of total nonfarm workforce in professional & business services, financial activities, and information sectors

1939 to 2020



Source: Brookings analysis of U.S. BLS Data via FRED.

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The trends

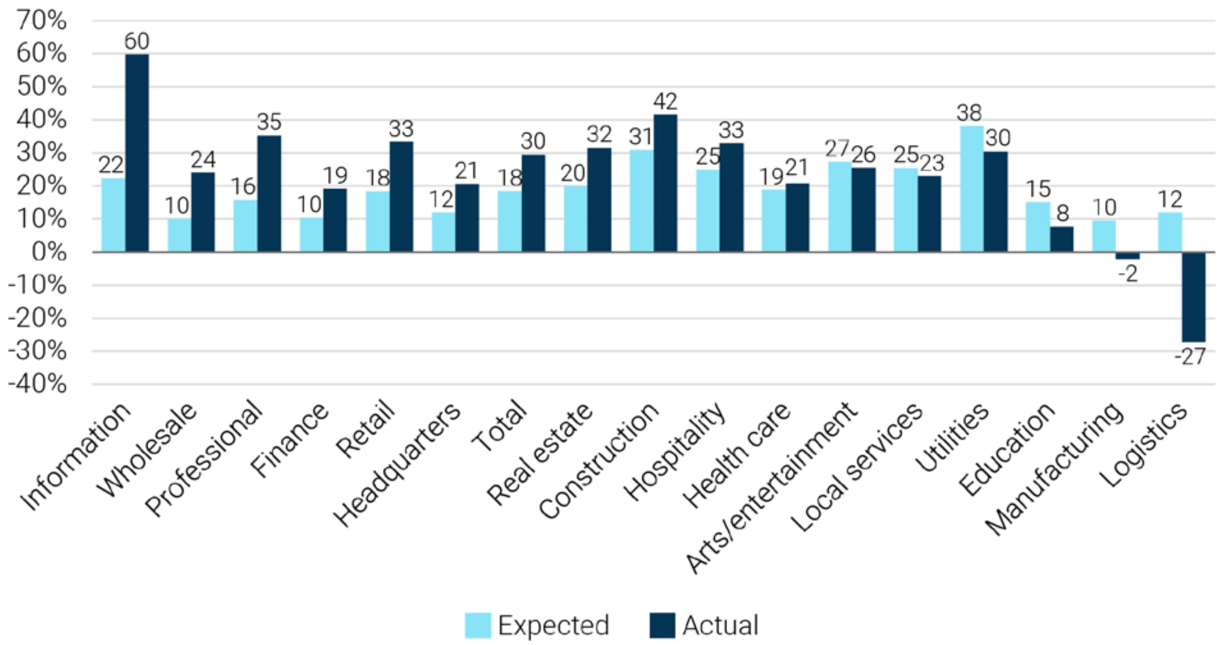
Four converging trends (only one of which the COVID-19 pandemic has dramatically accelerated) are redefining the office real estate market much faster than builders and asset managers can respond.

Knowledge sector jobs are clustering.

The finance, technology, and innovation sectors rely on specialized talent, tacit knowledge, and increased productivity from knowledge spillovers. The latter two operate at very small spatial scales, resulting in extraordinary hyper-agglomeration of these sectors in a select few metropolitan areas as well as in individual neighborhoods and buildings, including emerging innovation districts around anchor institutions such as universities and hospitals. Between 2004 and 2015, the actual rate of neighborhood-level clustering in knowledge economy jobs intensified by two to three times the linear projected rate, depending on the subsector.

Figure 2. Expected versus actual change in job density around jobs by sectors

2004 to 2015



Source: Brookings analysis of Census LEHD Origin-Destination Employment Statistics.

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Office space needs and preferences are radically changing.

Increasing emphasis on collaboration, comfort, and flexibility as design principles to improve within-office productivity has increased demand for office floorplates that are far more retail-like than those in the 20th century office. This productivity effect is valued by large employers that can afford build-to-suit offices. Smaller organizations, including startups and freelancers, are increasingly seeking incubator, accelerator, and coworking spaces that offer not just more flexible lease terms, but distinct layouts and amenities too. Additionally, digitization means that offices need far less space for individual or organizational storage than ever. Rather, what is needed are access points for connectivity, computing, collaboration, and care.

Larger numbers of white-collar employees are shifting from living at work to working at home.

Prior to the pandemic, roughly 12% of workers—particularly those in management, business, and financial operations—worked from home at least once a month. In June of 2020, between 31% and half of all workers worked from home—likely for all or most of the time. Over a quarter of recently surveyed Fortune 500 CEOs were leaning toward making telework permanent for at least some of their employees. This trend will increase at variable rates in different U.S. regions, depending on their industrial composition and the pandemic's impact. Tech centers and early pandemic hotspots are likely to see the biggest, quickest pivots. Seattle-based REI, for example, recently announced that it is attempting to sell a brand new headquarters building that it never even moved into in favor of a decentralized, multilocation approach. This shift has big implications not just for employers and workers, but also for places.

The volume of office space is now exceeding demand, resulting in rising vacancy rates.

The net result of these converging trends is that employers are consuming far fewer square feet per worker. Even before the COVID-19 pandemic, median square feet of occupied office space per worker across the top 10 U.S. metro areas by population was down 22% since 1990. Vacancy rates are over 20% in some submarkets, particularly those like downtown Dallas, which is dominated by 1980s-era aging office buildings that lack the durability or vintage to be eligible for historic tax credits for rehabilitation. The market is particularly soft outside of prime locations in favored quarters and 24-hour submarkets—namely, outlying locations in the suburbs, such as the I-395 corridor in northern Virginia. Table 1 presents the regional, downtown, and maximum vacancy rates prior to the pandemic at the close of 2019 for submarkets in the top 10 U.S. metro areas by population.

Table 1. Office vacancy rates in the top 10 US metropolitan areas by population

Office market size	MSA	Region	Downtown	Most vacant submarket	
1	New York-Newark-Jersey City, NY-NJ-PA	8.9%	8.9%	19.5%	Parsippany
2	Washington-Arlington-Alexandria, DC-VA-MD-WV	12.8%	11.1%	25.7%	I-395 Corridor
3	Chicago-Naperville-Elgin, IL-IN-WI	12.0%	11.1%	21.1%	Schaumburg Area
4	Los Angeles-Long Beach-Anaheim, CA	9.5%	14.1%	13.5%	Koreatown
5	Dallas-Fort Worth-Arlington, TX	15.2%	22.2%/14%	22.1%	Plano
6	Houston-The Woodlands-Sugar Land, TX	16.5%	18.0%	46.1%	North Belt (Cluster)
7	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	8.5%	7.4%	12.8%	King of Prussia/ Wayne
8	Atlanta-Sandy Springs-Roswell, GA	11.6%	10.2%	20.6%	Norcross/ Peachtree Corners
9	Phoenix-Mesa-Scottsdale, AZ	11.5%	12.2%	17.4%	Northwest Phoenix
10	Miami-Fort Lauderdale-West Palm Beach, FL	8.5%	15.7%	12.0%	Boca Raton

Note: Office market size is distinct from residential population. In cases where the downtown submarket has the maximum vacancy rate in the region (highlighted), the next highest submarket vacancy rate is reported in column 5.
Source: Brookings analysis of CoStar data

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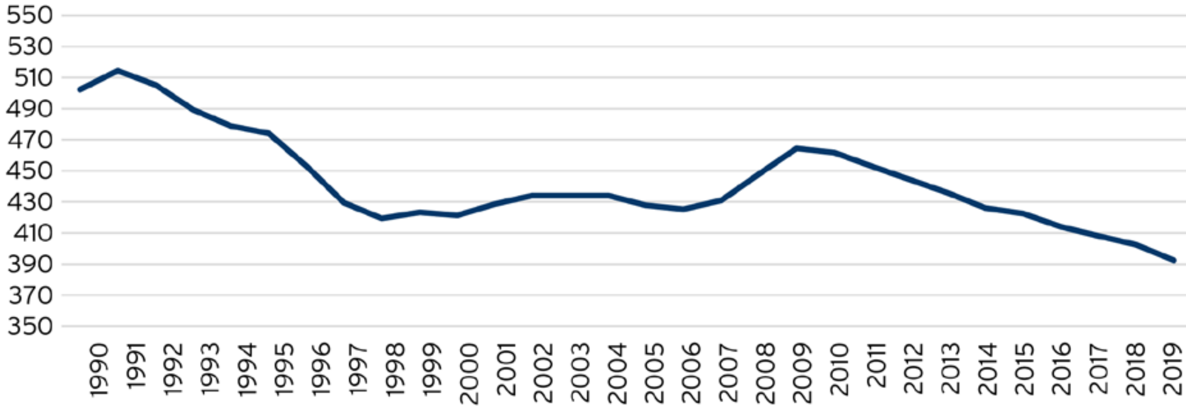
In the 1980s, when many of the buildings in the most troubled submarkets were constructed, the glut of new supply caused a similar surge in vacancy that was resolved over time by limiting new construction. Today, however, these buildings are simply obsolete for office use. Some can be adapted for residential or institutional use, but many are likely to be abandoned. In turn, this is likely to generate a range of negative second-order effects on the neighboring retail, restaurants, and other nonoffice businesses that rely on revenue from firms and their workers, representing additional threats to community vitality and the tax base. The impact will be far greater in declining and slow- or no-growth metro areas, where there is no new demand to absorb vacated office space or support adaptive reuse.

Figure 3. Median office square feet per worker

Top 10 US metropolitan areas



Source: Brookings analysis of CoStar data.

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Why these trends matter

Both the real estate industry and the public sector have been slow to reckon with the impact of surplus office space on markets and places, with some rationale. But as trends accelerate, so too will the costs and consequences—potentially good and bad—for communities.

The reality is that the market has little incentive or capability to repair the negative externalities of surplus office space through renovation or adaptive reuse. While repurposing some former office space for housing or to better meet the holistic needs of office workers—for child care, health care, food, or socializing—is both possible and necessary, there is a limit to how well a remodeled office can compete with new product. Moreover, the financial case for investing in high-cost conversions to other uses is often weak, as lower rents per square foot will be a given.

This all comes with serious fiscal implications for local governments. For example, a recent study of the effective property tax rates levied by the largest cities in each state and Washington, D.C. found that, on average, commercial properties are taxed at 1.64 times the rate of homesteads (i.e., predominantly owner-occupied condos or co-ops). Even multifamily rental apartments—an income-producing asset class—will typically be assessed at a lower per-square-foot value, as multifamily market rents per square foot are usually lower than for offices, as shown in Table 2. Inversely, residential uses generate far more demand for costly public services. As office demand continues to decline, converting existing office inventory to multifamily rental, homestead, or nonprofit institutional uses is thus likely to have a negative fiscal impact within localities that are heavily reliant on property taxes. Jurisdictions that have structured their zoning and budgets around office real estate should anticipate not just stagnant growth, but a structural contraction in demand that will require fundamental—and overdue—budget and planning reform.

Table 2. Per square foot market rents for office and multifamily housing, 2019

	Office	Multifamily Housing	Ratio
Median	**$18.27** (e.g. Sioux Falls, SD)	**$1.03** (e.g. Greenville, SC)	**1.48** (e.g. Toledo, OH)
Minimum	**$12.16** (Morristown, TN)	**$0.60** (Florence-Muscle Shoals, AL)	**0.66** (Santa Cruz, CA)
Maximum	**$70.45** (San Francisco, CA)	**$4.14** (San Francisco, CA)	**2.53** (Florence-Muscle Shoals, AL)

Source: Brookings analysis of CoStar data for 390 CoStar research markets

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Still, there are some potential upsides to these shifts, particularly for the environment. While offices are relatively efficient to heat and cool, reducing the energy spent maintaining these spaces (which sit empty most of the day) is likely a net consumption reduction. More importantly, changes in the office sector are likely to reduce peak commute congestion. Given that transportation produces well over one-third of U.S. carbon dioxide emissions, office trends that reduce peak congestion and allow workers commuting flexibility could be good for the climate—if office workers do not use that flexibility to drive more.

Most notably, where it is possible to convert surplus offices to housing, it will all but certainly shorten commutes, and/or increase the viability of transit, walking, and bicycling. The conversion of obsolete offices in prime locations, especially downtowns, to for-sale or multifamily rental housing will also increase downtown vibrancy and grow communities of opportunity. Strong housing demand in these locations means the financial and fiscal gap between offices and housing are the narrowest and most feasible to close (such as through federal tax credits).

Some degree of face-to-face interaction will continue to play a vital social and professional role in most knowledge-sector occupations, ensuring that there will always be a need for office-like spaces. In the years to come, however, the amount, form, and function of those spaces will look very different. These changes are an opportunity for public and private sector leaders to reevaluate existing investments, regulations, and fiscal structures to support the kinds of buildings, uses, and development patterns that firms and workers—and our natural environment—desire. But they will need to work together to meet that moment.

The author thanks Payton Chung for his invaluable feedback and review.

Retail revolution: The new rules of retail call for small business empowerment

The Brookings Institute, by DW Rowlands and Tracty Hadden Loh, December 16, 2020

The full effects of the COVID-19 pandemic on U.S. retail may not be fully clear for months. Many stores and restaurants have closed permanently, but some—especially those located in residential neighborhoods where more people are working from home—may benefit from the changes to people's routines. What *is* clear is that that these new and powerful impacts on the sector are coming on top of much longer-term changes in how and where people shop.

Post-pandemic, every metropolitan area—but especially metro areas in the Midwest and the Southeast—will find themselves with surplus retail space in need of major capital investment for adaptive reuse. Short-term strategies to stabilize department-store-anchored malls will not last against long-term trends, and long-standing racial disparities in access to retail will reinforce structural racism at a time when the nation is crying out for racial justice. The industry and policymakers should view this as an opportunity to work together to create new opportunities for housing, institutional uses, and locally empowered retail entrepreneurship.

The trends

The COVID-19 pandemic comes at a pivotal moment in American retail. The sector is already facing dramatic stress and tectonic shifts from e-commerce, tariffs, and changing consumer preferences. Yet the real estate industry has struggled to produce the retail developments that match shifting demands.

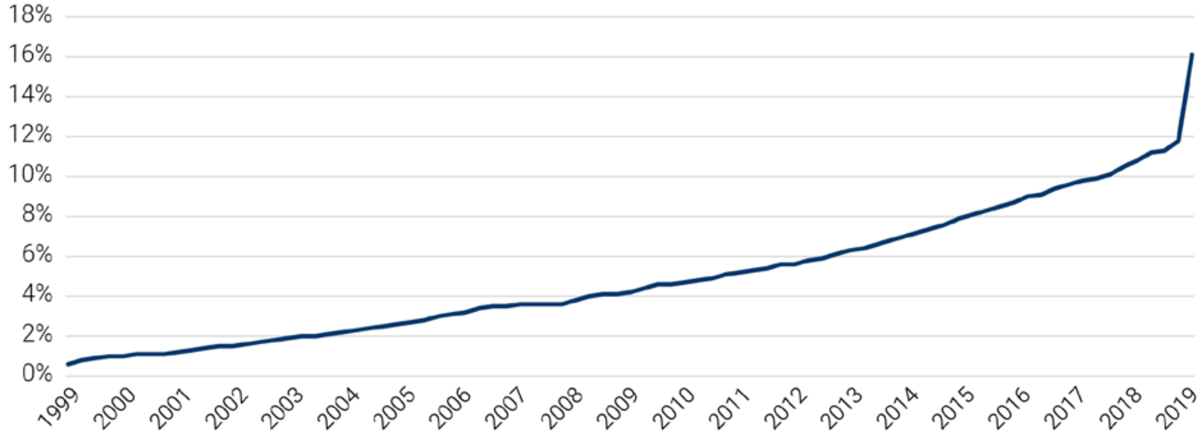
Rapid e-commerce growth is disrupting the retail sector.

According to the Census Bureau, e-commerce retail sales have grown from $37 billion in the first quarter of 2010 to $200.7 billion in the second quarter of 2020—an average increase of 30% per year and an increase of 37% from the first quarter of 2020 (the last quarter before the pandemic). This growth corresponds to a major increase in e-commerce's market share of all retail sales, from the low single digits 10 years ago to over 16% today.

Growth in e-commerce does not mean the end of brick-and-mortar stores, however. Trade analysts have noted a "halo effect" for hybrid (or "omnichannel") retail enterprises, in which online sales grow in neighborhoods where retailers also have a physical presence. This is why big-box retailers like Target are opening smaller-format stores closer to where people live, while formerly online-only innovators like Warby Parker and Casper have introduced showroom storefronts. The location, format, staffing, and supporting logistics of brick-and-mortar retail are seeing intense innovation and experimentation.

Figure 1. E-commerce retail sales as a percent of total sales

Q4 1999 to Q2 2020



Source: Brookings analysis of Census Bureau data.

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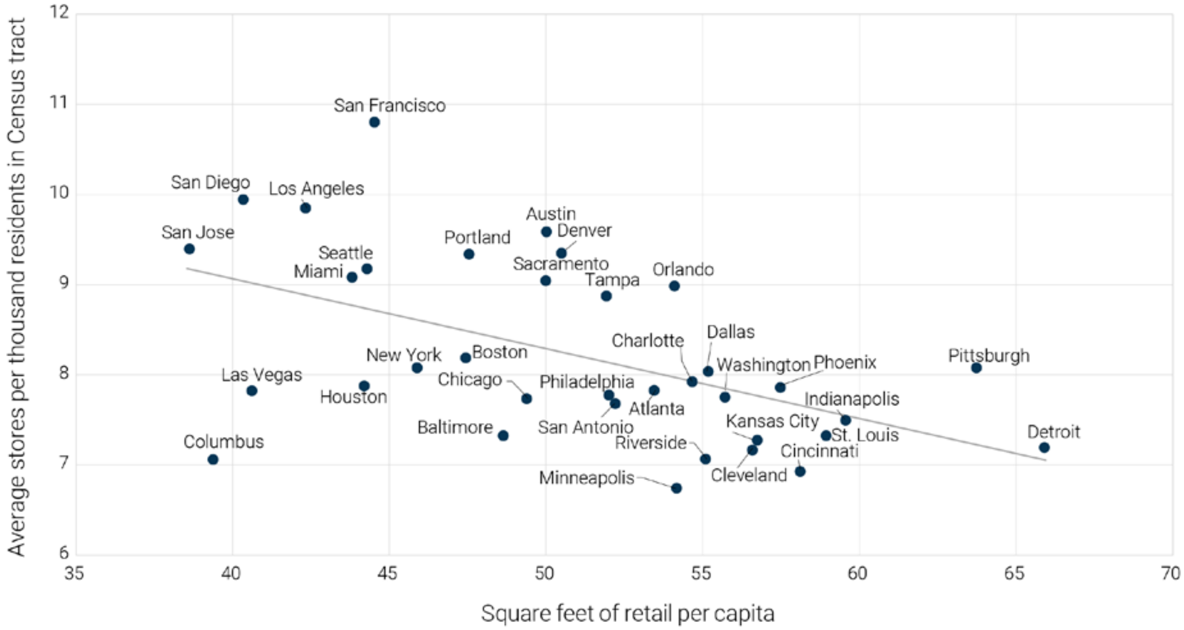
Retail has shifted from neighborhoods to regional clusters, and from independent merchants to national or global brands.

The significant expansion of e-commerce retail is occurring alongside a decades-long retreat of neighborhood retail which has been driven, in part, by the rise of big-box stores and the demise of small retail firms. The share of goods sold by independent retailers in the U.S. has halved since 1980 and is now roughly one-quarter of the total. The total number of retail firms in the U.S. dropped by 5% between 2007 and 2017—from 1.13 to 1.06 million—even while the U.S. population grew by 8% in the same time frame. Meanwhile, the growing online retail subsector has become especially consolidated, with Amazon accounting for 35% of online sales and 51% of annual growth in online sales in 2015.

Retail retreat and consolidation have not played out to the same extent in all U.S. metropolitan areas.

In the big picture, the United States as a whole has too many shopping centers per capita compared to global peers like Canada (29% less), Australia (53% less), Japan (81% less), and France (84% less). However, the extent and form of the U.S. retail glut varies tremendously by metro area. Some metro areas, especially in the Midwest and Southeast, are relatively over-retailed at the regional level and under-retailed at the neighborhood level. Metro areas with the most square feet of retail per capita tend to have particularly low amounts of neighborhood retail, as measured by the average number of establishments per capita within census tracts. This relationship is shown in Figure 2, and the full list of six-digit NAICS codes that we classified as "retail" are in Appendix A. Our "retail" category includes an expansive list of commercial land uses that typically lease storefront space, including stores, restaurants, and doctor's offices.

Figure 2. Regional retail density versus neighborhood retail



Source: Brookings analysis of CoStar and SafeGraph data (safegraph.com).

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Even with all this retail, some neighborhoods are still underserved.

At the national level, neighborhood retail access is fairly even across income categories. However, significant disparities exist by race. Previous research has found that supermarkets are much more commonly located in high-income, majority-white neighborhoods than in low-income and majority-Black neighborhoods. Our analysis found that retail establishments in general are significantly underrepresented in African American communities regardless of income.

In the 192 largest metro areas in the U.S., across the full spectrum of income, we found that census tracts with a Black population share over 80% have less than half as many retail establishments per capita as tracts with a Black population share under 20%. Census tracts with lower incomes have more retail per capita—a logical finding given that these households are less likely to have access to a car. However, even though over three times as many Black households are carless compared to white households, tracts with higher shares of African American residents have less retail per capita across the board. These findings are consistent with previous research identifying "retail redlining" as a cause of structural racial disadvantage. Access to retail amenities is a key driver of home values, so this dynamic also contributes to the racial wealth gap.

Table 1. Population-weighted average number of retail establishments in Census tract per 100,000 residents

Median household income	Percent African-American				
	0% - 20%	20% - 40%	40% - 60%	60% - 80%	80% - 100%
\$0 - \$40,000	942	840	781	630	465
\$40,000 - \$60,000	858	832	680	517	416
\$60,000 - \$80,000	835	762	590	494	348
\$80,000 - \$100,000	829	694	521	553	316
> \$100,000	809	660	410	407	405

Source: Brookings analysis of American Community Survey 2014-2018 5-year estimates and SafeGraph data (safegraph.com).

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Retail establishments in Black communities are often of a lower quality than those in white areas.

Only some types of retail are underrepresented in Black communities. Because conventional retail is underrepresented in Black communities, as shown in Table 1, the fraction of predatory retail establishments—liquor and tobacco stores, bars, payday loan and check-cashing centers, pawnshops, and dollar stores—is disproportionately high in majority-Black census tracts. This is the case at every income level. These predatory establishments are significantly more common in lower-income communities regardless of their racial demographics: They made up twice as large a fraction of retail establishments in tracts in the bottom quintile of income than of tracts in the top quintile of income. Table 2 shows the full distribution of predatory retail as a share of all retail by census tract by race and income.

Table 2. Percentage of all retail establishments that are predatory

Median household income	Percent African-American				
	0% - 20%	20% - 40%	40% - 60%	60% - 80%	80% - 100%
\$0 - \$40,000	4.1%	4.5%	4.4%	5.6%	6.3%
\$40,000 - \$60,000	3.6%	3.8%	4.4%	4.6%	5.2%
\$60,000 - \$80,000	2.8%	3.3%	3.7%	4.3%	3.8%
\$80,000 - \$100,000	2.2%	2.9%	2.9%	2.9%	3.3%
> \$100,000	1.8%	2.3%	2.6%	3.6%	2.7%

Source: Brookings analysis of American Community Survey 2014-2018 5-year estimates and SafeGraph data (safegraph.com).

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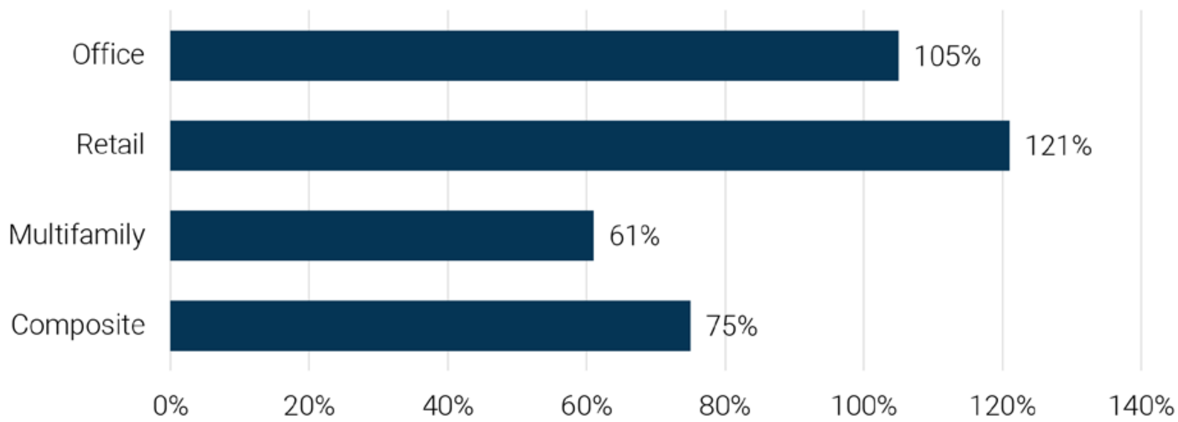
The real estate industry has missed market opportunities for "walkable" retail.

The real estate industry is visibly struggling to deliver usable retail products in the right locations. The relative absence of walkable retail in most American communities represents a market failure, given that retail leases in walkable urban places in large metro areas commanded 2.2 times the rents per square foot of the regional average in 2018, and that walkable commercial real estate premiums have increased 19% on average across the 30 most populous U.S. metro areas since 2010. Of all commercial real estate product types, retail commands the highest walkability premium. But despite this dramatic price signal, just 12% of retail square footage on average is located in walkable urban places across the 30 most populous metro areas.

Figure 3. Walkable urban place rent premiums over regional average

Weighted average of top 30 MSAs, 2018



Source: Foot Traffic Ahead 2019, George Washington University Center for Real Estate and Urban Analysis.

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Why these trends matter

The retail sector is going through a period of profound disruption. These trends have serious implications for both urban and suburban communities, which are grappling with very different sets of challenges related to retail supply and consumer needs.

At the regional level, dead malls have real potential for adaptive reuse, which is already happening. Their floor plates are far more adaptable to logistics, medical, or institutional uses than dated offices, and they are often sited in highly accessible locations. Ironically, these same floor plates are often more suitable for use as contemporary offices than typical older office inventory. Struggling suburban malls in high-growth metro areas can also allow for infill housing in their vast parking lots, especially malls with transit access. In particularly over-retailed slow- and no-growth metro areas and neighborhoods, the surplus is so great that retail uses are likely to be abandoned, and could be candidates for new ownership models inclusive of nonprofit, public institutional, or arts-based uses. However, the sheer scale of retail sprawl in those areas is such that contraction via demolition will be a necessary alternative to decay.

At the neighborhood level, the absence of the right retail spaces will continue to be an obstacle to retail innovation and equity. Neighborhoods with retail are more valuable and more resilient, so inequality will persist as long as all neighborhoods don't have decent retail amenities. The relative absence of neighborhood retail in majority-Black neighborhoods hurts residents in these neighborhoods and often forces them to pay higher overall costs for necessities. The predatory retail that *is* more common in low-income and majority-Black neighborhoods is also harmful, because discount retailers often drive out more desirable establishments. The expansion of dollar-store chains in low-income neighborhoods and Black, Latino or Hispanic, and Asian American neighborhoods has highlighted this effect, with those chains pushing out grocery stores that sell a greater variety of fresh, healthy food.

The lack of retail within walking distance is a particular problem for people without access to vehicles, especially as the largest share of Americans in poverty now live in suburban areas, which tend to have limited access to transit. However, the absence of desirable local retail options in low-income and majority-Black neighborhoods does not necessarily mean that residents of these neighborhoods go without groceries or other necessities. Instead, it often forces them to commit more time to longer trips. This burden of additional travel time for shopping and nonwork trips also contributes to gender inequality, as responsibility for nonwork "care travel" often falls on women.

Finally, the absence of local retail (and especially locally owned retail) forces residents of majority-Black neighborhoods to shop elsewhere, robbing their local economies of the benefits of a strong small business ecosystem. Money spent locally puts dollars in the pockets of shopkeepers and store employees (as well as sales tax revenue in government coffers), who then make their own expenditures, kicking off another round of spending in a virtuous cycle. The value of this local multiplier depends upon the extent of "leakages"— the share of resulting spending that is not recirculated within the local economy—which in turn depends on whether purchases are made at locally owned or national chain retailers. Estimates by a leading business analysis firm suggest that purchases from local, independent retailers result in recirculation in the range of 50% to 70%, while local purchases from national chains yield less than 14%.

The nature and distribution of brick-and-mortar retail is no longer working for many people and places. As the sector continues to evolve, retailers, landlords, and communities all stand to benefit if the real estate industry—in partnership the public sector—gets smarter about how to build products that better serve consumers in both urban and suburban areas.

The authors thank Chris Zimmerman and Jordan Howard for their assistance in researching this piece.