



Underinvestment is Contagious



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As the pandemic has demonstrated, for people to be healthy, their homes must be healthy, and for homes to be healthy, their communities must be healthy. Work we've been doing for the last half a year in Black neighborhoods of Milwaukee has uncovered six deeply rooted and mutually reinforcing causes of unhealthy neighborhoods due to contagious underinvestment:

1. Health improvement strategies are disconnected. America's healthcare system is oriented around not health improvement or health maintenance but health *repair*. The system will briskly identify an individual's visible health problem, treat it and then send the patient on his or her way...back to the same inherent or ambient conditions that create or worsen ill-health before, during or after treatment.

This fee-to-fix-it model is a consequence of the insurance-centric, Medicare-tropic, hospital-philic funding system that has given rise to the bureaucratic behemoth known as Department of Health and Human Services (HHS). To grapple with such administrative growth, healthcare entities scaled up to survive, usually by expansive consolidation. Now they span much more than a neighborhood or city, often much more than a state or even a region. Such megafauna labor to dance with mouse-sized neighborhood clinics, yet these clinics are where wellness is nurtured.

2. Health infrastructure is scarce and legacy infrastructure is unhealthy. Although a home is a family's exoskeleton protecting us from the world, all of us must go outside, where the public built environment just outside our front door either nurtures our health or assaults it. In growing cities, public urban infrastructure ages and becomes overloaded by rising demand while our health standards rise, so legacy infrastructure is often unhealthy. Its expensive replacement always starts highest-value-neighborhood-first, leaving lower-income neighborhoods progressively more underinvested.

In Milwaukee, for example, underinvested neighborhoods get their municipal water through 'lead laterals' – horizontal underground pipes at least half a century old. The city knows they should

be replaced, but the total cost to do so is estimated to be well over \$1 billion. Lower-income neighborhoods, whose residents may be more health-vulnerable to begin with, wait for decades.

Economic-adverse-selection effects ripple across other elements of urban health infrastructure, so places with lead laterals often have health clinic shortages. Food deserts with minimal access to fresh and healthy groceries overlay on digital dead spots lacking reliable, fast, free-or-cheap-to-user broadband. Neighborhoods splattered with boarded-up city-owned homes or post-demolition vacant lots are correspondingly sparse in community gathering or rallying points to create shared identity, shared sense of society and places for spontaneous teaming and resource aggregation.

The robust health infrastructure needed for connected health strategies starts with an expansive definition that sees broadband and grocery stores as health infrastructure, revived vacant lots (urban gardens? farmers' markets?) and storefront bodegas as economic infrastructure, daycare centers and other home-based businesses as families' health infrastructure.

3. Many homeowners lack liquidity to protect or improve their homes. Recent empirical evidence has established that in underinvested neighborhoods sweat and capital family invested into their homes often is illiquid – unavailable to homeowners to improve their family's education, their household income or their property values. It undermines and can destroy neighborhood economic health, and with it, people's physical health.

Whatever the reasons for the illiquidity of underinvested neighborhoods' homeowner' equity—racism, algorithmic appraisal bias or the challenge of underwriting real estate in places with declining population and jobs bases have all been advanced—this massive underinvestment in people and places is a huge policy failure.

It's also a market failure, a missed and still missing business opportunity. Common sense and underwriting experience both prove that people who own homes they value will fight like tigers and make greater sacrifices to keep them. Since a home occupied by a motivated owner is more valuable than an identical vacant one, it should not be underwritten identically to a vacant one. This takes new or reinvented financial products, tenure modalities (rent-to-own, shared appreciation, shared equity), and possibly lending entities or business lines.

4. Capital bypasses or flows out of unhealthy areas. Real estate differs from every other commodity that people can buy – because it is immovable, the only way to get money out of real estate is to persuade someone else to replace *your* sunk money with *their* sunk money. Capital inflow is as essential to residential neighborhood growth as rain is to farmland, which is why disinvestment is a dirty word in finance and redlining is both an insult and a value judgment.

Fifty years ago, we knew how to recycle local capital, based on local reputation and local touch. Local bankers lent to local families and businesses, with liquidity provided by localized

depositors and bond buyers. This model was wiped out by the 1980s collapse of the S&L's and the phoenix-like birth of interstate banking, digital underwriting and securitization, where today over 90 percent of residential liquidity comes from the Federal trio (Fannie, Freddie, FHA).

The old S&L's won't be coming back, so the necessary tenure and underwriting will compel innovative lenders to find or create replenishment liquidity via state housing finance agencies (HFAs), Federal Home Loan Bank member banks and Community Development Financial Institutions (CDFIs). They will be paired with specialized primary mortgage originators attuned to the more complicated household-in-home underwriting on which two-family or homes-over-retail property uses and values depend.

5. In unhealthy neighborhoods, community economic health is declining, because people cannot mobilize their latent labor or their invisible home equity for home and business investment. Latent, idle, obsolescent or unimproved resources need to be turned into uses that are economically or socially productive (preferably both). Economic development within the neighborhood is thus foundational to making it healthy and health-improving. Vacant lots are a signal of past jobs lost and a void where jobs should be again.
6. People in unhealthy neighborhoods lack collective agency over government's responsiveness to their neighborhood. Biological organisms evolve to an optimum size based on where they fit within the ecosystem. So do political organisms, such as towns, cities, states and countries. Organisms that grow too large overload their circulatory systems, and invariably some parts of the body (or the body politic) are deprived of blood or oxygen.

Over the last couple of decades, the cities' melting pots have curdled. Neighborhoods clump by income, and that clumping congeals through anti-development zoning and NIMBY public-review processes. Clumping leads to tribalization: voluntarily organized Business Improvement Districts (BIDs) and Neighborhood Improvement Districts (NIDs) tackle neighborhood-level challenges the city isn't addressing individually, pooling their members' money and efforts. Many spontaneously form around pockets of wealth or commercial activity. Many fewer arise in underinvested neighborhoods, whose inhabitants lack effective collective voice and agency.

Though outwardly different, these six causes have roots so deep that over the decades they have become embedded and intertwined, resisting any single-action or single-sector solution. Instead, they must be attacked simultaneously by a diversified portfolio of solutions implemented by locally embedded entities able to collaborate, coordinate and not conflict with each other. This takes a homegrown neighborhood-accountable entity that is itself rooted in stakeholder stewardship. This type of entity has existed before in American history and deserves a 21st century reboot – to be described in next month's *Guru*.