

CRCE Focus

Center for Research on the Colorado Economy

May 2001

MISSED OPPORTUNITIES?

New study identifies Denver's neglected pockets of economic potential

In a market economy, private investment capital flows to locations where the highest economic potential is perceived. But whether those perceptions are correct, and whether society is effectively served as a result, depend on the quality of information available to decision makers. Stephan Weiler aims to improve the level of that information, and to help ensure that no Colorado community has its economic potential neglected.

Weiler, a CRCE researcher and professor in the Department of Economics at Colorado State University, is heading a team effort to identify Denver neighborhoods that may have fallen into a vicious cycle of economic struggle, poor information about economic potential, low investment, and further stagnation. The group's study is focusing specifically on neglected potential for retail market development, and involves a partnership between the CRCE

research team and the Denver mayor's office, with funding from the federal Economic Development Administration. It has finished its first three phases and has entered the fourth.

Which neighborhoods? In the first phase of the project, the city/CSU team developed an algorithm to rank areas in terms of their

disadvantaged economic and social status, and used this data to target areas with the highest overall levels of distress. (See box on following page.) The information was organized by Zip code, which is consistent with how businesses analyze data when they make location decisions, and all data were drawn from public sources. "In fact," says Weiler, "a primary goal of this research is precisely to develop and publicize analytical methods that use easily available data, so fiscally-constrained local planners don't have to depend on expensive consulting firms."

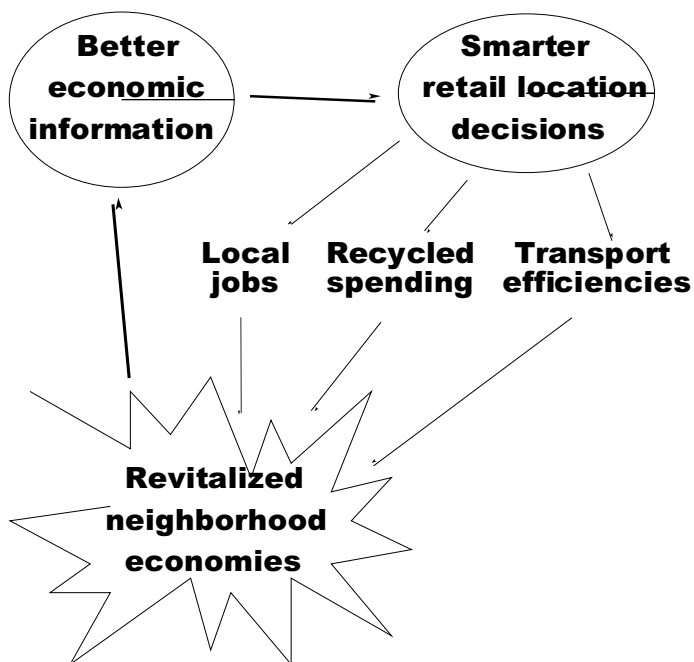
Estimating local supply and demand. In its second phase, the study assessed local demand and supply for retail services, comparing the prospects of each target area to those of the rest of the city of Denver. The demand-side analysis matches population and household data with household incomes, which in turn are adjusted by data on spending patterns from the Current Expenditure Survey, to produce an estimate of retail spending demand. The supply-side analysis uses a variety of Census data, and applies econometric methods to estimate current total retail sales .

How big a retail gap? The results allowed an evaluation of the local retail gap, in the third phase. Despite their central locations, most inner-city areas' potential retail demand exceeds actual retail capacity supplied to them. That gap means local residents must shop outside the neighborhood, resulting not only in additional transport costs but also lost local jobs for already struggling populations. Furthermore, such buying patterns reduce internal spending cycles that could benefit the community's broader economic vitality. Using the sales gap estimates, Weiler's team estimated prospects for local retail development in each target area, both overall and by broad sector.

The fourth and current phase of the effort is to determine both the private and public impact of potential development. Various scenarios regarding business "capture" should provide a useful range of impacts in terms of additional retail sales, jobs, and incomes. "Job types will be matched with the job needs of the local populace," says Weiler, "and we foresee new gateways for persons to gain labor market experience." In addition to these immediate and direct private benefits to entrepreneurs and hired workers, the internal cycle of retained spending will be modeled to

determine local multiplier effects. In this way, the broader community impact of projected development can be estimated.

What's next? Comparing these findings with results from related inquiries will be the focus of the fifth and final phase. The researchers will use an example project to illustrate the sorts of private and social benefits and costs that would be generated by the placement of a new retail outlet. That kind of information can help guide both private investors and the public planners who might try to attract such investors as effectively as possible.



The tables on the following page show the calculations of retail gaps for the nine Zip code areas involved, for two categories of retail establishment: supermarkets, and household and clothing stores. The tables also show, when there is a gap, what would be the effect of capturing half that gap with new local retail stores.

How the quality of information helps private investors make location decisions has been a continuing theme in Professor Weiler's research. For instance, he has helped demonstrate the economic viability and shared benefits that would come from establishing a barley malting plant in the San Luis Valley. He also has studied the redevelopment of Lower Downtown Denver, with a special focus on the risks that face "pioneer" businesses who are the first to enter a redeveloping area. "The same sort of risks would be a factor in getting renewed retail investment in inner-city neighborhoods," notes Weiler.

In other current research with colleague David Mushinski, Weiler is estimating the "critical mass" that is necessary for specific kinds of retail industries to be viable in local markets. The results of that research should provide useful additional insights into the potential for "new" markets in inner-city Denver.

Graduate student involvement in these applied research projects are helping to train promising urban/regional economists.

Effective partnerships. Weiler believes that the Denver project is an example of a unique sort of partnership between a public university and the private sector, with each focusing on its own comparative advantage. In this case, the university's researchers synthesize economic information on otherwise neglected areas, while entrepreneurs are the ones who go on to construct and manage the most promising entrepreneurial projects based on the findings. Weiler considers the participation of the city and of specific neighborhood groups to have very high value as well, since both are uniquely placed to both critique and then disseminate the critical information.

"Our findings may not in themselves spark new investment," says Weiler, "but the results of an objective analysis should help give further backing and momentum to current entrepreneurial efforts. Local entrepreneurs are indeed the principal targets of the effort. Our research findings should be directly useful to potential businesses for their planning, and could be used as support for potential private and public financing."

Summaries of the study's findings are available at the CRCE Web site, <http://www.colostate.edu/Depts/Econ/crce.html>.

For more information on this project and related research, contact Professor Stephan Weiler, Department of Economics, Colorado State University, Fort Collins, CO 80523. Telephone at 970-491-3883, or email Stephan.Weiler@ColoState.edu.

Underserved Denver Neighborhoods by Zip Code

Lincoln Park, Auraria, Sun Valley, Villa Park, West Colfax	80204
Five Points, Cole, Clayton, Whittier, Skyland	80205
Northeast Park Hill	80207 and 80216
Highland, Sunnyside, Jefferson Park . . .	80211
Globeville, Elyria/Swansea	80216
North Capitol Hill	80203 and 80218
Westwood	80219
Baker, Valverde	80223

**Retail Gap and Potential for SUPERMARKETS
in Selected Denver Neighborhoods, by Zip Code
(Based on 1997 spending and census data)**

With 50% Capture of Local Gap

Zip code	Number of households	Median income	Mean income	Estimated household spending	Estimated local retail sales	Local retail gap	Local retail gap per household	Potential new retail establishments	Potential new retail jobs	Potential new local retail sales	Potential new retail square footage
80207	7,652	\$46,746	\$58,441	\$25 mill	\$4 mill	(\$21 mill)	(\$2,690)	3.0	63	\$10 mill	27,669
80203	11,099	28,212	39,750	\$32 mill	\$18 mill	(\$14 mill)	(\$1,286)	2.1	44	\$7 mill	19,181
80211	14,303	31,517	39,294	\$41 mill	\$32 mill	(\$9 mill)	(\$609)	1.3	27	\$4 mill	11,712
80223	7,456	33,172	40,806	\$22 mill	\$16 mill	(\$6 mill)	(\$786)	0.9	18	\$3 mill	7,880
80205	8,940	24,502	37,351	\$25 mill	\$29 mill	\$4 mill	\$396				
80216	2,854	29,653	36,214	\$8 mill	\$14 mill	\$6 mill	\$2,134				
80204	12,074	26,621	36,132	\$34 mill	\$46 mill	\$12 mill	\$973				
80218	9,283	32,835	56,404	\$30 mill	\$69 mill	\$39 mill	\$4,240				
80219	18,738	37,763	43,889	\$56 mill	\$103 mill	\$47 mill	\$2,512				
Sum	92,399	\$32,336	\$43,142	\$272 mill	\$331 mill	\$58 mill	\$632	7.2	152	\$25 mill	664,420

**Retail Gap and Potential for CLOTHING and HOUSEHOLD STORES
in Selected Denver Neighborhoods, by Zip Code
(Based on 1997 spending and census data)**

With 50% Capture of Local Gap

Zip code	Number of households	Median income	Mean income	Estimated household spending	Estimated local retail sales	Local retail gap	Local retail gap per household	Potential new retail establishments	Potential new retail jobs	Potential new local retail sales	Potential new retail square footage
80219	18,738	\$37,763	\$43,889	\$82 mill	\$17 mill	(\$66 mill)	(\$3,513)	30.9	277	\$33 mill	155,272
80211	14,303	31,517	39,294	\$58 mill	\$4 mill	(\$54 mill)	(\$3,755)	25.2	226	\$27 mill	126,680
80218	9,283	32,835	56,404	\$49 mill	\$6 mill	(\$43 mill)	(\$4,618)	20.1	181	\$21 mill	101,102
80207	7,652	46,746	58,441	\$42 mill	\$4 mill	(\$38 mill)	(\$4,909)	17.6	158	\$19 mill	88,599
80203	11,099	28,212	39,750	\$45 mill	\$14 mill	(\$32 mill)	(\$2,813)	14.7	131	\$16 mill	73,646
80205	8,940	24,502	37,351	\$35 mill	\$4 mill	(\$30 mill)	(\$3,392)	14.2	128	\$15 mill	71,526
80204	12,074	26,621	36,132	\$46 mill	\$27 mill	(\$18 mill)	(\$1,531)	8.7	78	\$9 mill	43,601
80223	7,456	33,172	40,806	\$31 mill	\$26 mill	(\$5 mill)	(\$728)	2.5	23	\$3 mill	12,796
80216	2,854	29,653	36,214	\$11 mill	\$28 mill	\$17 mill	\$6,093				
Sum	92,399	\$32,336	\$43,142	\$399 mill	\$131 mill	(\$268 mill)	(\$2,901)	134.1	1202	\$143 mill	673,223

The **Center for Research on the Colorado Economy** is designed to pool, integrate and focus Colorado State University's expertise in economic modeling and policy analysis. **CRCE** is building a front-line program of research, outreach and teaching intended to serve economic managers, policy makers and students in the State of Colorado.

The Center's Mission is to generate high quality economic research and analysis focused on contemporary economic issues facing Colorado's economy. This work will be available to and utilized by public and private sector decision makers at state, regional and local levels in Colorado. **CRCE** serves Colorado State University's three primary missions: it generates knowledge by organizing data and applying frontier analytical methods; it provides outreach to the state by offering information and policy analyses to public policy makers and other constituencies; and it teaches students by involving them in applied research related to their classroom learning and by providing data, analyses and case studies useful within the classroom.

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