May 2018

McKinsey Quarterly

BOOMING CITIES, UNINTENDED CONSEQUENCES

Roadways clogged by commercial vehicles and intense competition for affordable housing are imposing costs on prosperous cities and their most vulnerable residents.

Cities are the hubs of the emerging digital economy, attracting knowledge workers with higher pay and alluring lifestyles. One consequence of this concentrated prosperity is rising rents and a scramble for housing that places disadvantaged citizens in peril—as seen in the increasing rates of homelessness in cities such as Seattle. More people living in urban cores also means more commercial vehicles are needed to serve them, which is fueled by a surge in online deliveries. The resulting congestion is burdening cities with surprisingly high costs. The social stresses of the new growth should be on your radar.

RISING INCOMES, RISING RENTS, AND GREATER HOMELESSNESS

The experience of one high-tech hub suggests homelessness can be an unintended consequence of rapid economic growth.

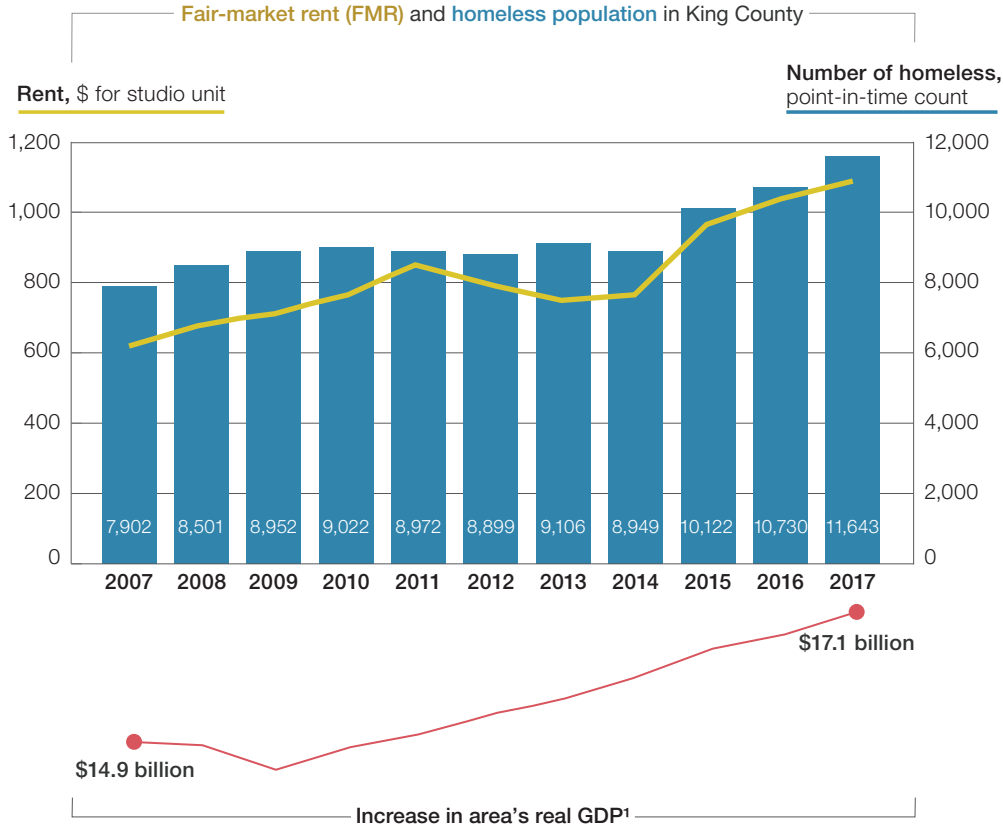
by Maggie Stringfellow, Dilip Wagle, and Chris Wearn

The number of homeless has fallen in most US communities. But it is climbing in affluent coastal cities such as Seattle, in King County, Washington. The exhibit suggests why: the cost of housing. In King County, homelessness has risen in line with the fair-market rent (FMR), which has in turn increased in line with the county's strong economic growth, propelled by the swelling ranks of high-income digital workers. On a single winter night in 2017, volunteers counted 11,643 homeless people, an annual average rise of 9.2 percent since 2014. Over the same period, the FMR has risen an average of 12.3 percent a year.

An essential component of the solution in Seattle and other prosperous urban areas is more affordable housing. In King County, as rents climbed, the stock of affordable units[1] fell by 13 percent a year

Exhibit

Rent increases in Seattle's King County show a strong correlation with homelessness.



[1] Real GDP for January 1 of each year, measured in 2009 dollars, not seasonally adjusted.

Source: Fair-market rents and point-in-time (PIT) count from US Department of Housing and Urban Development; King County 2017 PIT count administered by All Home; US Federal Reserve Economic Data

between 2014 and 2016, such that in 2017, some 22,000 households sought help from the county's homeless services, but only about 8,000 affordable units were available. The homeless population had to compete with higher-income individuals for these units.

In King County, we estimate it would cost between $360 million and $410 million a year to tackle current levels of homelessness—that's twice today's spending. Action would be needed on three fronts: preventing more people from becoming homeless in the first place, assisting the homeless to find accommodation, and most important, providing more affordable housing. Investments in affordable housing account for about 85 percent of the extra funding required. Housing subsidies—payable to landlords to make unaffordable accommodation affordable—may be the most effective investment, as they quickly boost the supply of cheap housing.

Some corporations keen to alleviate homelessness in their local communities already fund emergency shelters. These are crucial. But they are not a long-term solution. Affordable housing is. Partnerships with local governments to support more of it could therefore be one of the best ways for companies to do more. Q

[1] Defined as affordable to households making 50 percent or less of the local median wage. Since 2011, units affordable to those households have almost halved.

Maggie Stringfellow is an associate partner in McKinsey's Seattle office, where **Dilip Wagle** is a senior partner and **Chris Wearn** is a consultant.

The authors wish to thank Katy Dybwad and Lukas Gemar for their contributions to this article.

THE CONGESTION PENALTY FROM URBAN SUCCESS

Commercial vehicles and online deliveries make city traffic worse and carry significant economic costs that demand creative solutions.

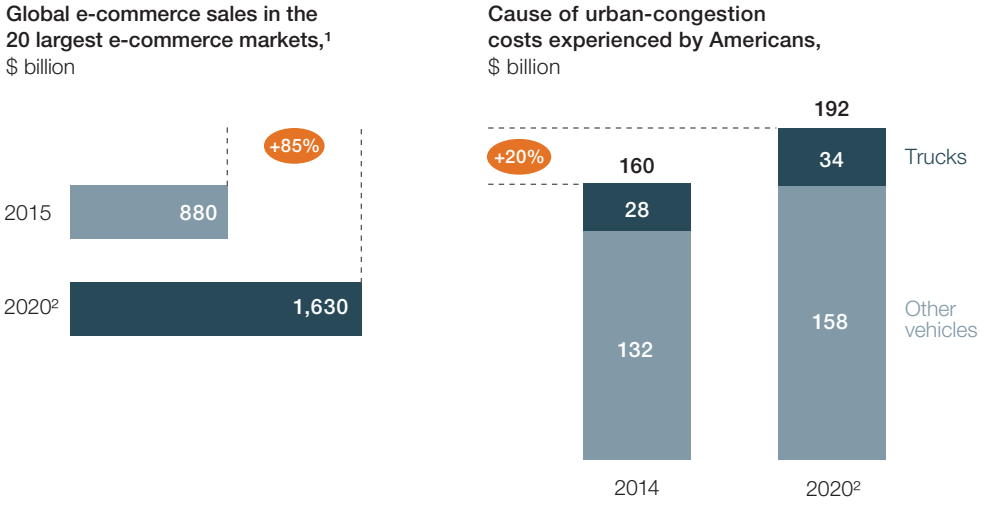
by Shannon Bouton, Eric Hannon, and Stefan Knupfer

Attracting energetic residents and thriving businesses are signs of urban success. But they also make traffic worse, as does the growing congestion caused by e-commerce deliveries. Commercial vehicles (CVs), such as trucks, vans, and buses,[1] can be particular trouble. Trucks accounted for 7 percent of urban travel in the United States in 2015, for example, but 18 percent of congestion. Cities can't do without CVs, of course; trucks deliver much of the material and services that residents need to live, from food to power repair. The rise of e-commerce has added to the flow. E-commerce sales in the largest 20 markets could hit $1.6 trillion in 2020, an 85 percent increase over 2015. Congestion costs can be surprisingly high. These "externalities"—in economic parlance—represent as much as 2 to 4 percent of city GDP.

Logistics staging areas outside city centers (urban consolidation centers), load pooling, and parcel lockers have proved successful in reducing miles driven by CVs and the number of deliveries, as well as costs. Allowing night deliveries reduces congestion during peak hours and lowers vehicle-related emissions. These practices, plus the use of electric vehicles and autonomous ground

Exhibit

Rising e-commerce sales may flood city streets with delivery trucks.



[1] Adjusted for inflation.

[2] Estimated; urban-congestion estimate assumes 2014 share of congestion costs between trucks and other vehicles continues unchanged.

Source: "Number of passenger cars and commercial vehicles in use worldwide from 2006 to 2014," Statista, 2017; *2015 Urban Mobility Scorecard*, INRIX and Texas A&M Transportation Institute; McKinsey analysis

vehicles, show the greatest potential, in both environmental and economic terms. In the longer term, droids, drones, and individualized delivery could also make a difference. Q

[1] For more, see "Urban commercial transport and the future of mobility," September 2017, McKinsey.com.

Shannon Bouton is the global executive director of the sustainable-communities program at McKinsey.org and is based in McKinsey's Detroit office; **Eric Hannon** is a partner in the Frankfurt office; and **Stefan Knupfer** is a senior partner in the Stamford office.