The Downtowns of the Future

Venues for Creativity and Interaction in the New Economy

Working Draft

by

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Revitalized downtowns may be the biggest surprise of the last decade. Downtown Austin, Portland, Boston, Dayton, for example, and South of Market Street in San Francisco have become hot new places to nurture and grow start-ups in the software, creative services and multimedia sectors. Does it seem strange that the city core — one of the symbols of economic devastation and disinvestment for decades emerges in such a positive light?

More people than we might like to think have been caught off guard by this new development. The business press has written some about this growing inner-city phenomenon, but not enough information has been presented yet to catch the attention of the civic entrepreneurs and professional organization across the country who have made downtown development their cause or agenda. Arguably, to be good stewards of their communities, these business and public leaders need to know more about this new pattern that now dominates more and more American cities.

Regional leaders should take note too because a strong urban core is the win-win solution to creating livable regions. Smart growth includes revitalizing the urban core.

Explaining the Puzzle

This report is an attempt to take a clear-eyed look at this new development. It looks at what is putting the "e" — as in new economy, new energy, and more and more entrepreneurs — in some of America's downtowns so that we can begin a conversation about how we may achieve these goals in other cities. It presents trends and issues that will help us answer the important question: Is this a fleeting phenomenon, born of an over exuberant stock market, or is there a truly valuable and enduring way to revitalize regional cores and incubate dynamic new businesses at the same time. Perhaps most important, the report gives some clear direction on the types of things city and regional leaders should be thinking about as they look at the future of their downtown or other urban centers.

Five trends beneficial to downtowns are worth exploring:

- The surge in small knowledge-based firms and new business models, both of which change where companies can locate within the region.
- Three dramatic changes in the make up of the American population — aging baby boomers, young, single knowledge workers, and new immigrants — and their preferences for places to work and live.
- The role technology plays in redefining the way we work and live.
- The dramatic elevation of quality of life over such things as highways, waterways, and mineral deposits as the most important geographic attribute for company competitive advantage.
- The interplay of all these trends to change what sort of built and natural environment suits these new economic, technology, social and cultural developments.

Taken together, these trends and the encouraging evidence from Austin, Portland, San Francisco, New York, Dayton, and a dozen other cities around the country reveal a new possibility for urban centers broadly and downtowns specifically. New demography, new economy, and new geography may be as profound a determinant of the size, shape, and prospects of regions and their downtowns in the coming years as the post-war suburban boom was. Even so, in thinking about the future of downtowns, its always good to remember that some downtowns succeed because they are destined to, but most downtowns because they are determined to.

The Evolving Downtown

It wasn't all that long ago that cities followed one strategy to develop their downtowns: They recruited major retailers. This heavy focus on retail comprised the "first wave" of downtown economic development practice. Its roots stemmed from the suburban era — from 1950 onward — that bought a shift of people and some jobs (manufacturers) from the central city to suburbia. As retailers and consumer services followed the people to the metropolitan edge, flagship urban department stores evolved to suburban shopping centers to big regional malls. Downstowns were left with big holes in their urban landscape and big holes in their revenue. In that development climate, cities found themselves pitted against their own suburbs and against each other in competition for landing new retail prizes.

In the late 1970s and 1980s, as growth in manufacturers, wholesalers, and distributors also occurred in the periphery of American metropolitan areas, city centers began to focus on being a "place to visit" and a place for specialized services — financial, legal, and business services, government and education. (see Table 1) To do so, they invested in museums, concert halls, sports stadiums, convention centers, hotels, and large multi-screen cinemas. Many built new city halls and court buildings. This concentration on entertainment and public facilities comprised the "second wave" of downtown development practice.

Bill Fulton, writing for *Governing Magazine* April 1997, characterized this revitalization strategy as building "Planet Downtowns" — referring to the theme-type complexes and attractions. A wave of consumer spending on "congregating" activities — recreation outside the home — and prosperity on Wall Street provided the juice for this development trend. Fulton worries, though, that any entertainment-led revival will not be durable if it is not accompanied by a resurgence in office employment and broader retail trade. Another concern for durability is that new downtown entertainment districts are becoming indistinguishable from other cities' and suburban malls. There is not much competitive advantage in having the same coffeehouses, restaurants and ballparks as everyone else.

Big venues — cinema megaplexes, sports stadiums, convention centers — is another hallmark of this second wave. Phoenix' focus on remaking it's downtown in the 1980s and 1990s, for example, brought two major museums, two major concert halls, a baseball park, a basketball and hockey arena, a convention center and an upscale retail and movie complex all within a few blocks of each other.

Richard Florida, Carnegie Mellon University professor of regional economic development, calls these "spectator assets" and he warns that they may not be the golden assets once thought with the rise of knowledge workers. "While professional sports are seen more and more as a way to achieve "major league" status and attract talent, reality is not many high-tech workers want to devote an entire Sunday watching football," says Florida.

Using focus groups, interviews, and an eclectic array of demographic data, Florida is plotting the sociological factors that enable cities to attract human capital. Chief among his findings: High tech workers are active and they want choices in their amenities. They generally are not spectators; they don't want to stand on the sidelines. They want to participate. They want bike paths, rock climbing walls, parks, a music scene, historic assets, and mixed-use neighborhoods. He points to Austin as a city that gets it.

In an interview with *Fast Company* magazine, Florida explains that Austin decided that it wanted to create a great place to work and a great place to live. The vision: "Livable Digital Downtown." So it leveraged its music scene and its independent-film community, and it launched strategies to preserve open spaces and control growth. Florida praises Austin's mayor, Kirk Watson, for understanding that in order for the city to be successful, it has to promote a convergence between technology, Austin's music scene, and its unique, laid-back quality of life — not one or the other.

Table 1. The Four Faces of Downtowns

	Industrial (1950s)	Retail/Service (1970s)	Entertainment (1980-90s)	Creative (1990-2010s)
Economic Identity	• Place to make and move goods	• Place for commerce and goods	• Place to visit for fun or access special services	• Place to create and incubate new knowledge
Main Customers	• Factories • Fortune 500 • Blue-collar workers	• Real estate developers • Mom & Pop stores • Retail centers	• Suburban families • Tourists • Conventions • Business people looking for special services (e.g. government, law)	• Knowledge workers • Entrepreneurs • Universities • Information-based services • Artists
Key Amenities	• Large land parcels • Low transportation costs • Freeways • Rail or waterways	• High rises • Shopping centers • Parking	• Big stadiums • Entertainment complexes • Museums/zoos • Parking	• Cultural diversity • Night life • Networks • Fiber-optics • Live-work • Compact • Density
Downtown Leadership	• Competes for manufactures	• Competes for real estate and big retail	• Competes for big sports teams, retail, and entertainment facilities	• Competes for talent, soft-technology firms, and smaller-scale amenities
Success Measures	• Fortune 500s • Job gain	• Sales tax revenue • Corporate headquarters • Job gain	• Event attendance • Sales tax revenue • Lively atmosphere • Residential gain	• Start-ups • Entrepreneurs • Venture capital • Residential gain • Coolness • 24/7 access

Is Austin onto the third wave of downtown development practice? It's a fair question to ask. Florida's research and that of others, including the Milken Institute's research which will be discussed later, are starting to yield compelling theories about what will draw talent to certain cities and about how downtowns that adapt to this change will end up being big winners. More importantly, cities like Austin, San Francisco, Portland, and Chicago are starting to yield compelling evidence about what a downtown in the not-so-distant-future will be like once it responds to the new economy.

Chief among its characteristics:

- It's a place of intense concentration of all sorts of urban activities — to the old downtown has been added an overlay of new entertainment facilities and an overlay of some parts of the new information economy.
- It's a place of diversity, both in amenities and people, which in some indefinable way spurs the kind of creativity driving the new economy.
- In other words, it's a place where first, second and third waves of downtown development practice seem to settle into an uneasy but synergetic coexistence.

Downtown's New Edge

It's this hybrid, fusion and transformation that gives downtowns a competitive advantage in the new economy. To see that opportunity, you have to understand two things. First, ideas are driving the 21st century economy. As Seth Gordin writes in *Fast Company*, "The first 100 years of our country's history were about who could build the biggest, most efficient farm. The second 100 years were about the race to build efficient factories. The third 100 years are about ideas." Second, it's critical to understand that there is an enduring dynamic between cities and "the new thing."

Most people think the new economy is just about a collection of high-tech companies. But in fact the new economy is short hand for a whole host of changes taking place. We're caught in an era of remarkable disruption. Oddly enough, the stock market is a sideshow. The deeper changes involve technology invading our lives and businesses as it never has before, communications making the global seem local, individuals gaining enormous, unaccustomed power both as workers and as consumers, and smaller and smaller organizations being able to wallop much bigger entities. During the past five years, a start-up company has changed the way we think about buying books, and in doing so, it has exploded all of our preconceptions about the book industry. Another startup has revolutionized the way we get recorded music, and it has probably wrecked the music business. A third startup (AOL) has acquired the nation's largest media company (TimeWarner).

Ideas are driving this change and "creative destruction." More than ever in our history, huge value is being leveraged from smart ideas, and the technologies, business models, or customer services they have spawn. But it's not just the smarts of Microsoft's Bill Gates or Nike founder Phil Knight that are the sources of today's creativity and wealth. This is a time when both individual prosperity and real business value flow from employees that advance intellectual property, scientific discovery, marketing creativity, venture capital experience, networking opportunity, and even employee recruiting and retention strategies. So the people and places that can deliver ideas are becoming invaluable.

That's something cities are good at. The Wall Street Journal, in a recent new economy expose, reminded us that "for centuries cities stimulated new forms of communications and information management — from the ancient libraries of Alexandria to the scientific methods of the Renaissance to the technological torrent in the 20th century that brought forth television, mobile telephones and the Internet."

How, then, do ideas come about in cities? More importantly, what's the role of public policy? Since we're still figuring out some of the answers it can be difficult to relate the production of ideas to economic development strategies. But we do know two very pertinent things.

1) Ideas require intelligent seeding.

2) Ideas that sit on the shelf are worthless. Ideas have to move, grow, and touch lots of people and businesses to provide benefits.

Universities, the traditional sites for public R&D and smart people, are certainly part of the equation. They are as close as we can get to public "knowledge factories," whether the research is trying to cure cancer or design a better computer. But creating new technologies and industries also means stimulating business off campus. Increasingly universities are being called upon to seed their communities with good ideas that lead to economic growth and jobs. While it's state and regional policy mostly in play here, cities that house universities (and other research institutions such as medical and federal labs) have opportunities to connect to and benefit from these knowledge factories. A study shows that of the top 30 leading technology regions, 29 of them are home to one or more major universities.

The Ingredients for Creativity

But cities and their downtowns have other opportunities. Urban cores are — at their best — good places to find what the experts say are three components of creativity: expertise, diversity, and interaction. (See Figure 1)

- **Expertise** means talented people, and many older downtowns like Boston and New York but also more dispersed downtowns like Denver or San Diego have dense concentrations of specialists and highly cosmopolitan workers. That factor is likely to hold in the near future because today's young knowledge workers are attracted to urban cores in part because they wish to have active social lives.

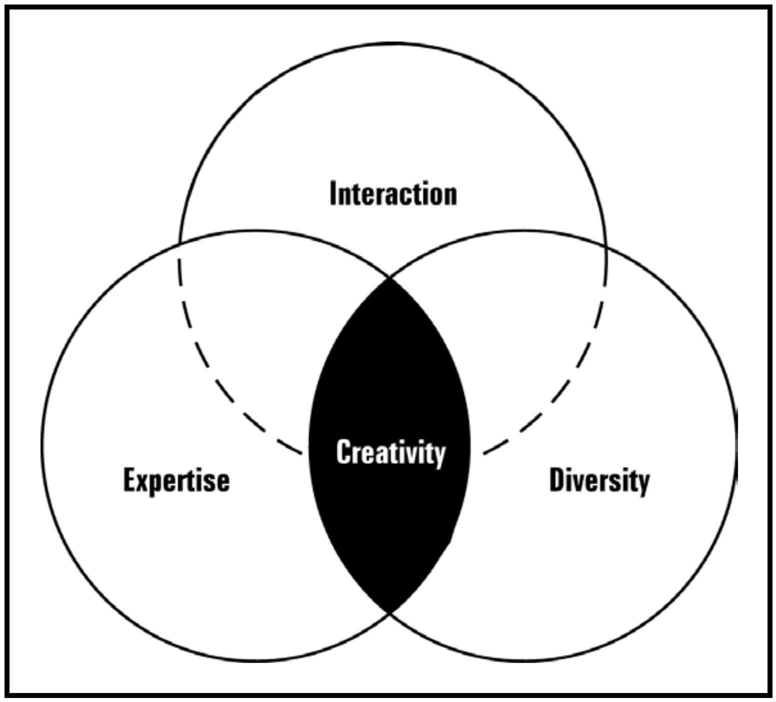
- **Interaction** is part of the creativity equation because when people come together, there is more chance for the passionate exchange of ideas and for new synergies from which new business models, new marketing plans, and new product are born. The intimate scale of central business districts makes face-to-face interaction and professional networking more efficient and easy. Networking at places in downtown San Jose has long been a factor in Silicon Valley's success.

- **Diversity** is important in generating the "Next Big Thing" because experts say you learn the most by interacting with people who are least like you. Cities and urban cores have long been a safe haven for immigrants and for foreign capital and for those who live unconventional lives — actors, artists, homosexuals, educated women. This variety has helped them evolve into an increasingly sophisticated provider of the arts and of cultural goods and services but it also makes them a good place to interact with "people who are least like you."

Thus, urban cores, with their cosmopolitan workforce, intimate scale, and strong diversity, are much better stages for creativity than suburbia. As one developer has observed — "this is about things that can't be duplicated further out." But at the same time, these urban advantages have to be cultivated.

For one thing, it's not enough for urban cores to have talent, intimate scale, or immigrants to successfully morph into an Idea Downtown. They have to find ways to put the pieces together to generate an advantage from their interaction. As Annalee Saxenien says, "it's not the ingredients but the recipe" that matters. Many areas have or can attract white-collar talent, build pedestrian-friendly urban scenes, and be a magnet for the education of international students. But it is much harder to combine them to create a downtown where the highest brainpower resides, ideas flow freely among businesses and people, and people easily — “over coffee” — find the support they need to start and grow desirable companies.

Figure 1: Three Ingredients for Creativity



Getting downtown boosters to focus on building their creativity advantage is likely to require a revolution in perspective. Joel Kotkin, author of “The Renaissance of Cities,” has found that many cities continue to base their downtown strategy on the Industrial Age paradigm of high-rises or massive factories even though the hope for central business districts — from Houston and Los Angeles to Baltimore and Boston — lies not in this role. These strategies are not in sync with the technology and advanced service businesses, workforce, horizontal architecture, and interactive venues that are beginning to define an idea-driven economy and that offer significant new opportunities for downtowns in this century. For example, as urban cores have declined as industrial, corporate and manufacturing centers, the expansion of media-related industries — online servers, video games, and multi-media software industries — has been central to their revival in the late 1990s.

For a city interested in cultivating a new role for its downtown as a hub of creativity, information, arts and entertainment, rather than as industrial center, it helps to understand the trends that can spur or impede that goal. In several important ways, population and business trends started in the last decade converge today to support the creative dynamics of urban centers.

What a Difference a Decade Makes

The 2000 census brings "revolutionary" news that cities gained population in the 1990s. After a half century of seeing their population dwindle as people abandoned the core of the city and moved to the suburbs, many cities are now showing signs of a modest reverse movement, or as the Milken Institute says, "signs of a new dynamism that would have been impossible to imagine only a decade ago."

From these early analyses, we are learning about three key demographic and cultural trends and four business trends important for downtowns of the future.

Demographic and Cultural Trends:

Expertise and diversity are on the move. We are learning that three key demographic groups driving regional success today are highly mobile. The three groups are:

> *Young talent:* Skilled knowledge industry professionals, scientists and engineers in their twenties and thirties who want to live in exciting places.
>
> *Yuppie Baby-Boomers*: Managers and professionals in their fifties and sixties who are at the peak in their productivity, wealth, and earning potential, and who are now "empty nesters" and contemplating "active retirement" which is likely to involve going back to school or starting new businesses.
>
> *Immigrants*: Highly skilled, entrepreneurial immigrants who are moving to places that have open, tolerant social structures, a range of community choices and dynamic fast-growing economies.

Place still matters. Though highly mobile, talented people and entrepreneurial companies — the engines of economic growth and prosperity — will set down roots in regions and communities that provide a rich and supportive environment for their endeavors. The 2000 census documents the growing trend for groups such as young professionals, middle-aged empty nesters, and Asian and Latino immigrants to gravitate to those regions that have at their core dynamic urban centers with thriving 24/7 downtown businesses, retail, and entertainment districts. What's more, these individuals are, as Harvard Professor Edward Glaeser describes them "very sophisticated consumers of place." These "sophisticated consumers" value places that have housing choices, residential community choices and transportation choices. They value access to quality public spaces and nearby recreational activities. They recognize that having low taxes and housing prices or lax planning and regulatory environment will no longer do the job for livability, and may be even counterproductive in a world that values high quality of life.

The scramble for talent is on and will get more intense. For decades the 76 million baby-boomers — now 35 to 53 years-old — have crowded the workplace. But as this population ages, there won't be enough Generation Xers, those now ages 23 to 34, and Echo Boomers, members of so-called Generation Y, now age 5 to 22, to fill their shoes. That means there is likely to be a talent shortage early in this century. In-migration will supply some of the needed talent; increased productivity will take up some of the slack. Many boomers may stay in the talent pool. But fundamentally, this swing will put a premium on young, well-educated, creative talent. It follows that those communities that can attract and keep talent (in particular, highly skilled, well educated individuals both from other US regions and overseas) will attract employers.

The good news for cities is that all three demographic groups are showing a growing interest in urban life. Getting them downtown maybe a bigger challenge; even so, recent Brookings Institution research shows that 24 cities across the country expect to see increases in the numbers living in their downtown areas.

Business Trends:

The new sign of dynamism in city cores is not limited to people. Changes in the business world are creating new opportunities for cities and their downtowns. Four trends in particular have positive implications:

No industry is "bolted down." The industries driving the economy today and in the foreseeable future don't have to locate near natural resources or transportation hubs as yesterday's economic leaders did. Information, multi-media, telecommunications, and software companies are extremely footloose by comparison. What's more, large industrial corporations and traditional manufacturing giants are now seeing some of their divisions — headquarters, marketing, knowledge management — as footloose. Boeing's recent decision to locate its company headquarters in another urban area but leave its manufacturing facilities in Seattle illustrates this trend.

Proximity Matters. While companies are becoming more mobile, they are also drawn to geographic areas in which they find clusters of their competitors, suppliers, customers and partners. Because the world is being joined into a single economic unit, it may seem logical that place and proximity should become less important. Yet local factors today actually matter more, not less. Firms cluster in areas that provide them with a critical mass of competitors, suppliers and customers; a strong talent pool; an excellent quality of life; and unique institutions that support their industry. Knowing how to create competitive advantage out of these local factors is strategically important for both companies and communities. As this business characteristic indicates, communities that prosper in the new economy are those that put together a mix of characteristics that help firms to compete and thrive in the global economy. That package, more often than not, takes a mix of regional assets and space. Yet there are certain cases when clustering occurs in particular nodes within metropolitan areas, including city cores, because of both unique business needs and natural advantages of dense urban environments.

Small is "in." Even with merger-mania, there is no doubt that the economy is splintering into ever-smaller and more specialized pieces. Most job growth in the 1990s occurred in companies with fewer than 500 employees and the vast majority of that occurred in firms with head counts of 20 or less. The average size software firm is 27 people. Only 11 companies in Silicon Valley have more than 10,000 employees. Large corporations are acting smaller, too. We see it in the rise of outsourcing and telecommuting and in the increasing importance with corporations of ad hoc project teams. We see it in the use of the Internet to dissect the value chain and in the evolution from centralized structures to network structures.

There is a "soft" side of the technological revolution. Mention the new economy and most of us automatically think of technology. Specifically, we think of ever-fancier and more sophisticated gadgets: laptop computers, cell phones. And we also think of the fabled companies that manufacture these products and their components — Intel, Motorola, Hewlett Packard — as the foundations of the technology revolution. But the new economy is not simply about the making and selling of new technology. Technology, it turns out, has two faces, as the Milken Institute describes it: one 'hard' and one 'soft'. The hard side includes activities such as the production of fiber optics and chips, while the soft side "is focused primarily on such fundamentally creatively driven fields as media, fashion, advertising and design." This second face of the technology revolution, which focuses on "the content of messages that flow through expanding information pipelines," says the Milken Institute, is suited to the more flexible networks of smaller organizations and to the natural advantages of dense urban areas. The hard side, on the other hand, has traditionally involved large governmental and corporate organizations and remains concentrated in the periphery of metropolitan areas where parcels of land are larger and generally cheaper.

Putting together these trends, its easy to see that the future of accommodating business growth in a metropolitan area is no longer only about big land parcels for manufacturing or proximity to transportation routes for distribution facilities in new suburbs. It's also about rendering older urban areas as better places for small companies because many of the small, fast-growing firms driving regional success today are more suited to the intimate scale, mixed-use and firm clustering found in dense urban areas. Similarly, there are parts of nearly every larger corporation — headquarters, marketing, design — highly suited to creative urban environments.

"The regional steward comes away with a different picture of cities and regions today, says Doug Henton of Collaborative Economics. "We don't have to give up on central cities and look only to the suburbs for good jobs. Spatial patterns in the new economy are changing. While dispersion of 'hard' capital intensive technology in search of low cost land and labor will continue both outward across the United States and globally, we are likely to see a continued concentration of soft, human intensive technology in vital centers in creative urban areas. Think of the opportunities that these converging trends create for the creative regional steward," says Henton.

Choosing a Future for Your Downtown

Clearly people looking out for the future of downtowns will want to understand the specific demographic and economic trends described in this paper. But that's just the first step — and frankly the easiest one. How a city chooses to take what it has and put it into play amid these emerging trends will determine its downtown's future and how it will grow. Although much that is happening today bodes well for urban areas in general, remember that nothing is evenly distributed across the US, including baby-boomers, immigrants, fast-growing technology firms, and venture capital. After nearly a century of economic dispersal in the US economy (both within and between regions) there is now a growing trend towards consolidation of advanced services and technology in a limited number of successful metropolitan centers. These are places with dynamic, expanding economies that are attracting in-migrants, both from other US regions and overseas. Other places are being increasingly marginalized as "second-tier, branch-office" cities with declining sectors of the national economy.

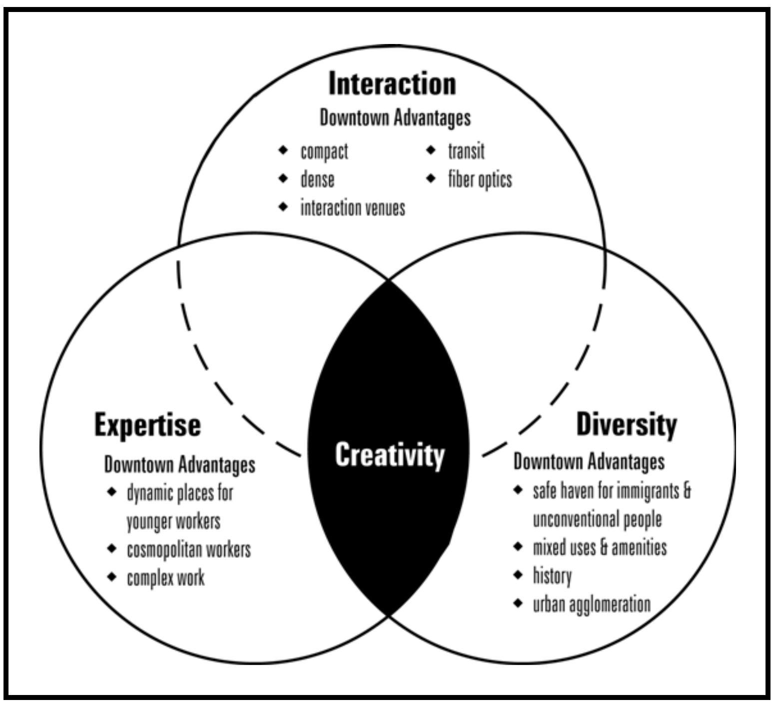
Two recent studies provide evidence of this new geography. Richard Florida, author of *Competing in the Age of Talent*, has found that talent is flocking to three types of "hot spots":

- Traditional, high-tech industrial complexes (Silicon Valley, Research Triangle, Northern Virginia)
- "Latte" Towns: high-tech places with easily accessible outdoor amenities (Austin, Boulder)
- New Urban Technology Centers (Pioneer Square in Seattle, SoMa in San Francisco)

Looking more specifically at urban centers, the Milken Institute reports in *Knowledge-value Cities in the Digital Age* that there are first-tier cities, among them, Manhattan, San Francisco, Boston, Los Angeles and Chicago, and there are emerging technology cities, whose populations are near or less than 500,000 persons. First-tier cities lead in the digital economy at the moment because they have traditionally held "the strongest appeal for artists, creative individuals and predominately younger educated people." But the emerging cities, among them Omaha, Boise, Baltimore and Dayton, are gaining "because they offer several advantages to firms, knowledge workers and enterprises over their first-tier counterparts. These include far lower costs of living, a supportive business environment and an often concerted effort by local officials and business leaders to lure and nurture new industries."

Practically every metropolitan region in the US and around the world is thinking about how to make itself attractive to the creative, "footloose" entrepreneurial companies and highly skilled people that are driving the growing knowledge-based and technology sectors. As shown, the factors they are looking for in locations are radically changing the geography "sweepstakes." Based on what we now know about these individuals and companies, a strategy aimed at building each of the three components of creativity talked about earlier in this paper — expertise, diversity, and interaction — appears to be one way to win in the new geography sweepstakes (see Figure 2). Certainly, it can form a framework for evaluating whether a trend is "good" or "bad" for creative dynamics, and for deciding the next steps to take in optimizing the positive aspects of city centers and minimizing or eliminating the downsides. Taking the three components in turn, let's explore what can be done to enhance a region's "downtown product" in the new economy.

Figure 2: Framework for Building Creative Downtowns



Grow Your Expertise

A creatively dynamic downtown must attract, access, create and utilize knowledgeable and innovative people. But part of a downtown's "expertise" also grows out of its uniqueness of place or economic specialty. Cities should adopt strategies for their downtowns that reinforce their special role in the metropolitan economy and build on the distinctive urban assets that are valued by knowledge workers. The menu for action is big, but the general outline for effort should focus on the following strategies:

Tap the knowledge assets in their midst. These include universities and medical research centers, any clusters of advanced services or soft technology companies, and any "new urbanites." A large part of achieving Austin's Digital Downtown vision involves connections with the University of Texas and State Capitol, which are in and near the downtown area. Another example of parlaying knowledge assets into a strong technology image is Tempe, Arizona. Part of the fast-growing Greater Phoenix region, the city of Tempe could have lost ground to newer suburbs. But in the 1980s, the city began rejuvenating its downtown area adjacent to Arizona State University. Over time this campaign has fostered an increasingly dense concentration of restaurants, condominiums, retail, entertainment and high-tech business activity. In addition, the city has created a town lake in the dry Salt River bed and turned it into a regional recreational amenity and local economic magnet. More recently, the city is focusing on becoming a "Technology Oasis" by building the downtown area into a hub largely for software and other cutting-edge industrial clusters. The results of Tempe's efforts has been the creation of the strongest concentration of new economy firms in metropolitan Phoenix in an area that offers a "pedestrian-dominated" environment and an appealing location for recreation and entertainment activity.

Build real estate "product" that fits with small, fast-growing new economy companies. According to the Milken Institute, first-tier cities such as San Francisco, Boston, and Los Angeles and Chicago are creating "cyber-districts". They have "transformed large blocks of formerly destitute warehousing and manufacturing space into highly desirable post-industrial hubs" so as to attract more "new urbanites" and soft technology companies. Behind these projects is the recognition that technology-focused entrepreneurial companies need office space with flexible lease arrangements in wired buildings with 24-hour services, including security and restaurants. Many firms do not receive these services in most major metropolitan areas because leases tend to be long-term and building services often shut down each evening.

Make livability a hallmark of downtown development. "The future of most cities depends on their being desirable places for consumers to live," says Harvard's Edward Glaeser. "As consumers become richer and firms become mobile, location choices are based as much on their advantages for workers as on their advantages for firms." Which means paying more attention to a broad array of community amenities and housing types to accommodate the needs of an increasingly diverse group of potential downtown consumers. It's good to continuously ask: Is this the "product" knowledge workers want? There is emerging evidence, for example, that potential workers in developing high tech industries don't put much stock in the traditional tools of downtown development — big stadiums, large convention centers, and high rise office complexes. Instead, they seek regions that offer smaller scale quality of life amenities (such as parks) and areas full of thriving cafes, restaurants, music venues, art galleries, etc.

Build clusters of skilled workers and firms as quickly as possible. One or two firms do not make an economic niche or entrepreneurial community. Thus, the pursuit of critical mass needs to pervade efforts to build creative downtowns. As more talent and firms either move into or start in an area, they make that location more attractive for subsequent firms and skilled workers to follow. Once a critical mass of knowledge workers or companies develops in a core area, it can be self-perpetuating. In this case, the prize comes in having dozens of small, related firms rather than in landing one big company, or more importantly, one big sport franchise.

Fix the schools at the core. If a region's lowest achieving schools, based on percentile ranking of standardized test scores and graduation rates, are near or in downtown areas, then fixing those schools is a critical part of growing and attracting talent. Low-performing schools deter families from moving to or staying in the center of the region. Furthermore, unless these schools are fixed their students — many of them immigrants — can not compete for high-earning, high-skilled technology jobs. The obvious, inescapable fact is that youth without options and yuppies without children can not by themselves be a downtown's offering of expertise. The package is greatly enhanced when families choose to remain in cities after they have children.

Table 2: What Do Knowledge Workers Want From Downtowns?	
Old Economy vs.	**New Economy**
▪ big ticket amenities • pro sports • fine arts • cultural destinations	▪ smaller scale amenities • outdoor recreation • life-style amenities • "coolness" (night life) • diversity/openness
	▪ thick labor market
▪ passive assets	▪ active assets
▪ weekend access	▪ 24/7 access

Source: Richard Florida, *Competing in the Age of Talent*, January 2000.

Grow Your Diversity

Even though diversity can make an important contribution to creative dynamics and regional growth, cultivating diversity is a new development focus for most communities. They may be dealing with the challenges arising from multi-ethnic communities and new immigrants, such as bilingual classrooms or segregated neighborhoods, but few are reaching out in a systemic way to recruit and integrate people from other countries and cultures into their communities. That can change, with a few key steps.

Think multi-age, multi-ethnic melting pot for long term workforce viability. Blacks and Hispanics account for 18% of middle-aged Americans but 33% of the country's youth. Throw a fast-growing Asian-American population to the mix, and it's clear that collectively these groups will be transforming markets, talent pools, and regional advantages. The Milken Institute argues that new immigrants and aging boomers are creating new regional demographic divisions. California, Texas, Florida, Chicago and similar places will be increasingly younger and multiethnic melting pot regions. Heartland regions will become older and less ethnically diverse. Regions that fit into the latter category have serious questions to address: What will keep aging baby-boomers plugged into the economy? What steps can be taken to attract and retain young families and new immigrants?

Learn more about the way in which diversity and creativity intersect. Tolerance and inclusion appear to be hallmarks of creative areas. Silicon Valley is legendary for its embrace of risk takers and technology "geeks." Art and cultural centers such as Manhattan and San Francisco Bay Area are safe havens for a wide range of lifestyles and mindsets. No doubt, these areas score high on such diversity measures as numbers of Hispanics per 1,000 people or entrepreneurs per 1,000 or gays per 1,000. But there is more to their creativity edge than big numbers of immigrants or artists. Importantly, their local cultural encourages information sharing and networking and it is participation from different geographic, cultural, educational, socio-economic, and generational groups that opens the door to creativity.

This diversity effect extends to physical assets. Both the Milken and Florida reports tell us that the kinds of places that have thrived in the new economy enjoy diverse and unique amenities. Employers, forced to compete for talent, use cool locations, high quality of life and jazzy amenities to lure workers, and more important, to keep them. At the same time, employers say they are moving into city cores because the urban infrastructure — recreation, good restaurants, and cultural fare — create the type of excitement and chance encounters that can spur creativity and innovation.

Be wary of overwhelming a place and killing what it is (gentrification). The march to find cool space amidst "urban infrastructure" can trample the very amenities and diversity that made those cool spaces to begin with. As the tech companies move into urban cores, they are changing, even displacing, neighborhoods and driving downtown rents up so high that the original fare of cafes, restaurants, music venues and art galleries can't afford to stay. In San Francisco, for example, the clamoring for office space in the late 1990s sent commercial rents soaring, with prices for the first time passing Manhattan's. Rental vacancy rate was nearly zero, with about fifty people applying for every available unit, says one analyst. The cooling of the economy has eased things a bit for San Francisco and other "hot spots," but the implication is clear: Policy makers should be aware of and prepare to deal with this type of fall-out from revitalization. Unless careful, a place can very quickly lose the uniqueness that gives it character.

Grow Your Interaction

For a downtown to have a strong interactive edge, lots of threads must be woven together: fiber optic cable that supports electronic connectivity, pedestrian-oriented squares and streets that support face-to-face encounters; airport service that makes global and regional networking easy, to name just a few. As opportunities for interaction on multiple scales and venues occur, the community's strength and resource base for creative dynamics grow. Things to consider:

Ramp up telecommunication capacity. With the advent of the Internet-based activities and its new demands for bandwidth and power, downtowns with a major presence of fiber optics lines well above that found elsewhere in the metropolitan region can capture both new emerging Internet companies and other businesses using the Internet. The importance of telecommunication capacity for all industry is strikingly clear when you consider experts say the Internet is still in its infancy.

While rushing to build digital presence, city leaders must also be careful not to overwhelm the central business district with torn-up streets and too many telecommunications "hotels." The presence of telecom hotels mushroomed in downtowns in the late 1990s when telecommunications firms began to quietly establish a "co-location" presence near the downtown telephone switching station. By 1999, for example, Los Angeles had 150 telecommunications and Internet-related "switching" operations in the downtown core, says one analyst, many of which were occupying key commercial and several historic buildings. These enterprises have given rise to concerns about the vitality and diversity of city life as demands for telecommunication equipment compete with other people-based uses for downtown buildings, and Los Angeles has, in fact, taken several steps to ensure a better balance of activities.

Design public and private spaces so as to promote interaction. As the Starbucks phenomenon reveals, most Americans have a renewed yearning for neighborhood-scale "places" where they can have informal meetings and feel connected to their community. Moreover, the "cleaner" nature of the new economy makes it possible to locate homes, workplaces, and recreational areas closer together. For some reason, though, many cities still aren't challenging their real estate industry and public leaders to build the types of small-scale, mixed-use centers that new economy businesses value. To walk to a building 200 yards away to meet with colleagues, one urbanite told the *Washington Post's* Neal Peirce that he has to cross five lanes of traffic, plus hop a guardrail and walk across an azalea patch. That's not an environment designed for walking or one that promotes easy face-to-face interaction. The concept of "wired" live-work developments hasn't taken hold in many urban areas either, even though in 1998, for the first time, the number of new businesses started in residential settings exceeded the number of new businesses started in regions specifically zoned for commerce.

Seed networks and alliances. Individuals and firms are shifting away from self-reliance and toward a new model that places more value on alliances and networks. Creative service firms, ranging from software, to advertising and public relations, to film and video, concentrated in Portland's downtown told researchers that they receive a lot of information and references from each other. Things change so fast that networks become vital sources of information and new ideas for them. Industry groups and associations help them to maintain networks and facilitate face-to-face contact. New communications technologies are critical for these purposes and in particular for training and joint production. But Portland's creative services firms said they find the density, intimate scale, and amenities of the central city advantages as they present opportunities for spontaneous dialogue which lead to sharing knowledge and the ability to rapidly collaborate on business opportunities.

It Takes Leaders to make the Ingredients Work

As downtown boosters grapple with 21st century trends, the framework for future competitive advantage looks a lot like the core requirements of creativity: being able to attract and keep smart, creative people; being a place of intense concentration of all sorts of urban activities and people; being a place that facilitates the spontaneous dialogue and easy interaction, which in some indefinable way spurs the kind of creativity driving the economy today.

Seemingly overnight, economic, education, technology, community, and smart growth initiatives must go together. The battle for leading-edge industries, talented people, and quality places is often one and the same.

More importantly, nearly everyone that has studied what makes a region and community successful in the new economy concludes that its not just the ingredients or trends that are important, but how they are put together. Many factors affect this ability, but a key one is a group of leaders who know how to turn changing trends and scattered assets into something that gives competitive advantages for their area and for the people and businesses located there.

This puts a real premium on leadership. The smart money goes to those communities and regions that have business leaders stepping into the public arena who recognize that the strategic positioning of a region, city or downtown demands intellectual investment on their part and flexibility equal to the task of leading in business. Strategy is only the second step. Homework comes first and strategy execution is the third step.

When executives create business strategy, they project themselves and their organizations into the future, creating a path from where they are now to where they want to be some years down the road. In competitive markets, though, no one expects to formulate a detailed long-term plan and follow it mindlessly. As soon as you start down that path, you begin learning — about new conditions, competitors' actions, the quality of your preparations, and so forth — and you need to respond flexibly to what you learn.

The lesson of business leadership stands today for community leadership. If civic leaders are basing a downtown strategy solely on what's been and what's possible today, their urban core may not be in a very good position 2 to 5 years later. Day after day changes in technology, communication, commerce, and demography are rearranging how the world works. Business leaders, and elected officials, who do not keep up and hold on to old views of the world are likely to make bad decisions — decisions that can undermine their community's competitive advantage and erode the value of any strategy they develop.

Given the traditional never-ending struggle for downtown economic viability, it is even more important that city and regional planners never lock themselves into only one strategy or view but manage instead to evolve their downtowns to fit with sustainable national trends (not fads) and unique local conditions.

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