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Invest in a Great Place for Prosperity

A Proven Economic Development Strategy for Small Cities & Towns

By Ed McMahon, Chairman of the National Main Street Center's Board of Directors

Last year, Amazon announced the location of its second global headquarters: HQ2. It would be split between Crystal City, Virginia, and Long Island City, New York: both walkable, urban neighborhoods, one in Metro D.C., the other in Metro New York City. New York later withdrew its approval, so Virginia ended up with the big prize. Almost 240 U.S. and Canadian cities bid for the headquarters, offering as much as $8 billion in economic incentives, but in the end, it all came down to one major criterion: the ability to attract and retain highly trained workers.

Both Metro D.C. and NYC have highly educated populations, easy access to international airports, and functioning mass transit systems. Moreover, they both have the kind of walkable, mixed-use environments that attract young, talented workers.

While the economic environment has changed dramatically since the search for HQ2, the lessons learned for the hundreds of cities that weren't chosen and for the countless others that could never compete for the likes of an Amazon still apply. As downtowns and commercial districts across the country begin to reopen and rebuild their local economies in the wake of COVID-19, it will be tempting to chase big businesses and look for one significant fix. But the lesson for cities, especially smaller cities and towns hoping to attract top talent, is that instead of chasing the next Amazon, they should focus on building a great place.

There is nothing wrong with pursuing an economic development homerun, but the truth is, most cities will never succeed in attracting the equivalent of an Amazon headquarters, especially in the current economic climate. What's more, the strategy of throwing money at big business is completely unrealistic for most smaller cities and towns. So, what will work?

One proven strategy is the Main Street Approach, which leverages a community's historic assets and unique sense of place to generate jobs and businesses. Over the past 25 years, the Main Street Four-Point Approach to community revitalization has a proven record of creating new jobs and businesses, while also rehabilitating countless historic buildings and revitalizing thousands of disinvested commercial corridors. Since its inception, Main Street communities have seen $85 billion in new investment, rehabilitated 295,000 buildings, and created 672,333 net new jobs. What's more, every $1 of public money invested in Main Street communities, has leveraged over $30 of private investment. This is economic development with an eye on return on investent (ROI).

Yet, despite its enormous record of success, the Main Street program in Kansas and elsewhere receives relatively little public funding. After being scrapped in 2012, the Kansas Main Street program was recently brought back to life last year. But why haven't Main Street programs received more consistent attention and investment?

One reason the Main Street Approach hasn't been received with more attention is because it has, for the most part, involved modest projects in smaller cities and towns. Announcing big projects is fun and gratifying. In some cities, "chasing elephants" is seen as the best way of recruiting businesses. In some cases, cities have been successful by building industrial parks on the edge of town to entice a factory or distribution center to move there. However, the Main Street Approach is a far more realistic and sustainable method that any size city can use to grow their business base.

In fact, most new jobs grow out of existing businesses and are created by small businesses. However, most state economic incentives go to big business. In April 2020, the U.S. Small Business Administration reported that small firms accounted for 9.3 million net new private sector jobs from 2005-2019, or 64% of the total. They also say that middle market companies (those with revenues of less than $1 billion) produce three-out-of-five jobs in high growth industries. Even in high-tech job centers, like North Carolina's Triangle Research Park, most jobs are in small businesses. A 2018 report in the Research Park's Newsletter found that 60% of its employers had 25 employees or less.

The Power of Small

It is a mistake to think that economic revival is always about "the one big thing." American communities are littered with projects that were sold as the "silver bullet" solution to a city's economic woes. Whether it was a festival marketplace, a convention center, a casino, a new factory, or a big box store out on the highway, city after city has followed the copycat logic of big project mania. Some succeed however, successful economic development is rarely about the one big thing. More frequently, it is about lots of smaller things working synergistically together in a plan that makes sense.

Main Street demonstrates the power of small. Small steps, small businesses, small deals, and small developments can add up to big impact. Building small is sometimes harder, more time consuming, and less flashy than building the one big thing, but it is also more realistic, more cost effective, and more durable than putting all your eggs into one or two baskets.

The Main Street approach is also about creating better places. This is important because the link between quality of place and the ability to attract and retain residents and talent is becoming increasingly clear. Mick Cornett, the former four-term mayor of Oklahoma City says that "economic development is really the result of creating places where people want to be." Similarly, Steve McKnight, a Pittsburgh based economic development consultant says that in today's economy, "new investment is increasingly seeking locations based on the quality of place rather than the utility of location."

The traditional economic development strategy was about cheap land and cheap labor. It was about shotgun recruitment and low-cost positioning; the most important infrastructure investment was roads. The new reality is that highly trained talent is more important than cheap labor and investing in education and workforce development can be far more valuable than widening the highway.

It's also important to recognize that the big business subsidy approach often pits one community against another. It moves economic activity around. Businesses often leave or threaten to leave after the subsidies run out; and if you give a big subsidy to one company, other companies will likely demand the same. At the end of the day, taxpayers will end up subsidizing huge global corporations and communities will have few options if the market shifts or the company flounders.

On the other hand, the Main Street approach of working to create a great place builds lasting assets that will pay dividends long after the initial investment. This approach also helps existing businesses. It helps create diverse, durable local economies and it is a more realistic strategy for smaller cities and towns. And, taxpayers end up investing in themselves.

The Power of Historic Assets

Economic development is about choices. Communities can spend all their time and money on recruiting businesses, or they could focus on expanding existing businesses. Main Street is an asset-based approach to economic development. In other words, it focuses on reusing and restoring the assets a community already has.

Often a community's greatest asset is its historic building stock. Main Street leverages the value of historic buildings, ensuring that they are kept in use contributing to a community's future. Here again, many public officials underestimate the value and importance of historic preservation. Some even see older buildings as an impediment to revitalization. So, what is the value of historic buildings and neighborhoods?

First, historic buildings physically connect us to the past. They tell us who we are and where we came from. Saving historic buildings is about saving the heart and soul of a community.

Sentimentality aside, historic preservation is also an extraordinarily important tool for economic revitalization. Dozens of studies over several decades have documented that preservation is good for the economy, with positive effects on jobs, property values, tourism, downtown and neighborhood revitalization, affordable housing, and environmental sustainability.

What's more, while renovation and redevelopment are not new, today's market is embracing older space with new fervor. In 2016, for example, the Urban Land Institute reported in its annual Emerging Trends in Real Estate Report that "office space in rehabilitated industrial buildings (like former textile mills or warehouses) is now commanding rents above new Class A product." When asked why, one developer said it was because both employers and employees love spaces with authenticity and character. Historic industrial buildings also have large, open floor plans that make them flexible and adaptable: key attributes in a rapidly changing economy.

While it was once common to find corporate headquarters in sprawling suburban office parks, it is now just as common to find corporate offices in iconic historic buildings. Starbucks corporate offices, for example, are in a former Sears warehouse distribution center. Under Armor, the sports apparel company, has located its offices in a former detergent plant in Baltimore. Similarly, Converse Inc.'s offices are in a beautifully restored, but once derelict wharf on the Boston waterfront, and Ford Motor Company recently announced plans to restore the monumental, but long abandoned, Detroit Train Station for its new world technology center.

Downtown Ottawa

New Hotels in Old Buildings

The hospitality industry has also caught on to the advantages of historic buildings. In Milwaukee, the former Pabst Brewery is now the Brewhouse Inn and Suites. In Buffalo, New York, guest rooms have replaced patient rooms at the H.H. Richardson designed state mental hospital, which has been transformed into the luxurious Henry Hotel. And in Boston, the infamous Charles Street Jail is now the swanky Liberty Hotel.

The trend of adaptively reusing historic buildings for lodging facilities is not restricted to big cities or high-end brands. In Lexington, Virginia, the Hampton Inn is in a restored manor house. In Waterloo, Iowa, the former John Deere factory just reopened as a Marriott Courtyard Hotel. In Petaluma, California, an abandoned silk mill has morphed into another Hampton Inn, and in Grand Rapids Michigan, a vacant downtown office building has been reborn as a Homewood Suites Hotel.

There are several reasons for the growing interest in downtown historic hotels. The first is changing consumer attitudes. Millennials say that they prefer "walkable neighborhoods" over locations that require a car. They also say that "authenticity and interesting" are more important than "comfortable and predictable" when choosing lodging facilities. Second, the hospitality industry itself has begun to recognize the value of creating hotels that reflect a place and not each other.

The Power of Downtowns

Downtowns are at the heart of 21st century economic development because they are a community's nerve center and a key asset for regional prosperity. In 2017, the Lincoln Institute for Land Policy released a report on Revitalizing America's Smaller Legacy Cities which recognized that downtowns play an outsized role in revitalizing America's communities because they are the first place people will evaluate when judging the health of a community. This is true, even if the people doing the evaluating plan to locate their home or business outside of the downtown. In simple terms, if you don't have a healthy downtown, you don't have a healthy city or town.

In fact, the unique characteristics of a place may be the only truly defensible source of competitive advantage in a world where people can choose to live or work almost anywhere. A recent Lincoln Institute report examined the unique challenges of smaller, older industrial centers, primarily in the Midwest and Northeast. It described the trends affecting small and midsized cities: changing economies, declining manufacturing, growth in health care, increasing specialization, and diverging trajectories. Among the strategies for success outlined in the report were "focus regional efforts on rebuilding a strong down-town" and "build on an authentic sense of place."

The outsized role of downtowns in regional economic development was illustrated by Smart Growth America and Cushman Wakefield in a 2017 report entitled Core Values: Why American Companies are Moving Downtown. The report listed 500 major American companies that have either relocated to, expanded or opened new offices in "walkable downtown locations" in the past five years. Some of the Fortune 500 companies that have announced moves from suburban sites to downtowns include Motorola, McDonalds's, Marriott, Quicken Loans, GE, Caterpillar, Con Agra, Walgreens, and many others.

When asked why they were moving, the number one reason was "to attract and retain talented workers," followed by "to build brand identity and corporate culture." The third reason was "to support creative collaboration." The conclusion: downtowns are coming back to life because this is where both businesses and talent want to be.

Invest in Place

In today's economy, place matters more than ever and investing in place will be key to economic competitiveness in recovery and beyond. Next time your locality considers budgeting to spend millions trying to attract some global corporation, ask your leaders to consider devoting just a small percentage of this amount to an economic development program with a proven track record of success and real return on investment. After all, for most communities, hitting an economic development homerun is a lot harder than hitting a bunch of singles that can add up to even more.

Portions of this article originally appeared in the Virgina Municipal League's Virginia Town and City. Ed McMahon is a Senior Resident Fellow at the Urban Land Institute in Washington, DC and Chairman of the National Main Street Center's Board of Directors.

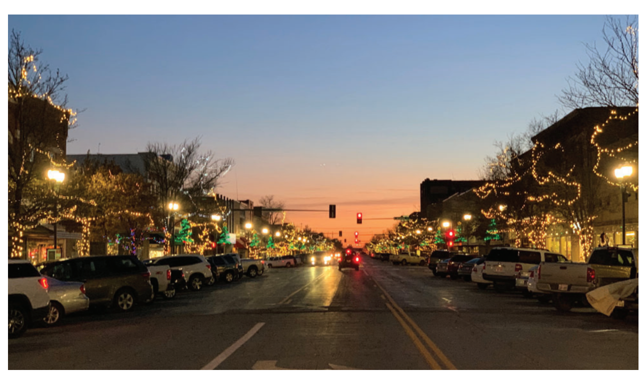
The Kansas Main Street program provides technical assistance and support for communities working to revitalize their downtown within the Four-Point Approach.® Main Street assists local programs in developing transformational strategies that articulate a focused, deliberate path to revitalizing or strengthening their downtown or commercial district's economy. Centered around four points — economic vitality, design, promotion and organization — these strategies guide the local program toward their distinct vision of what they want their community, and downtown, to be.

From 1985 to 2012, more than $600 million in redevelopment was invested in participating Kansas communities. This included the opening or expansion of 3,800 small businesses, creating over 8,600 new jobs. With the return of the state program in 2019, Kansas communities will once again have the resources and tools they need to breathe new life into their communities and historic commercial districts.

To participate in the Kansas Main Street, a community must:

- Understand and commit to the Main Street Four-Point Approach® and Eight Guiding Principles;
- Build broad-based cooperative partnerships with local public and private sectors;
- Maintain a sufficient level of local program funding to cover salary and benefits for the local Main Street director and staff, and operational costs (i.e. rent, marketing, professional development, insurance, etc.);
- Employ a qualified professional director to administer and guide the program;
- Participate in all quarterly trainings, directors' meetings, state and national conferences; and
- Sign an annual Memorandum of Agreement that specifies mutual expectations for a successful revitalization program and the state.

For more information about how to become a designated Kansas Main Street community, please contact Scott Sewell, Director, at (785) 296-7288 or by email at *scott.sewell@ks.gov.*



Downtown Garden City