A PROVEN ECONOMIC DEVELOPMENT STRATEGY

By Edward T. McMahon

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Amazon recently announced the location of its second global headquarters, (HQ2). It will be split between Crystal City, Virginia, a first ring suburb of Washington, D.C., and Long Island City, a New York City neighborhood in Queens. 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 criteria: the ability to attract and retain talent workers. So, what are the lessons learned for the hundreds of communities that weren't chosen?

One lesson is that economic incentives are not as important as community assets. Both DC and NYC have highly educated populations, easy access to an international airport and functioning mass transit systems. Moreover, they both have the kind of walkable, mixed-use environments that attract young, talented workers. Cities hoping to recruit top talent should focus on building a great place.

Now 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. What's more, the strategy of throwing money at big business is completely unrealistic for the clear majority of smaller cities and towns. **So, what is a better, more viable method of building a strong local economy?**

THE MAIN STREET APPROACH

Dollar for dollar, pound for pound, Main Street is one of the most effective economic development programs ever created. Developed over 35 years ago, the Main Street four-point framework has a proven record in over 2,000 communities of creating new jobs and businesses while also rehabilitating countless historic buildings and revitalizing thousands of main streets and disinvested commercial corridors.

MAIN STREET IMPACT

DOLLARS REINVESTED*:	$74.73 BILLION	NET GAIN IN JOBS:	614,716
BUILDINGS REHABILITATED:	276,790	NET GAIN IN BUSINESSES:	138,303

REINVESTMENT RATIO**: $26.42:$1

These estimates are based on cumulative statistics gathered from 1980 to December 31, 2017, for all designated Main Street communities nationwide.

*Total reinvestment in physical improvements from public & private sources.

**This number is not cumulative and represents investment and organization budgets from January 1, 2017, to December 31, 2017.

FOUR POINTS OF THE MAIN STREET APPROACH

ECONOMIC VITALITY focuses on capital, incentives, and other economic and financial tools to assist new and existing businesses, catalyze property development, and create a supportive environment for entrepreneurs and innovators that drive local economies.

DESIGN supports a community's transformation by enhancing the physical and visual assets that set the commercial district apart.

ORGANIZATION involves creating a strong foundation for a sustainable revitalization effort, including cultivating partnerships, community involvement, and resources for the district.

PROMOTION positions the downtown or commercial district as the center of the community and hub of economic activity, while creating a positive image that showcases a community's unique characteristics.

Since its inception, Main Street communities have seen almost $75 billion in new investment. What's more, in 2017, every $1 of public money invested in Main Street communities leveraged over $26 of private investment. This is economic development as if return on investment (ROI) mattered.

Main Street's wholistic, incremental approach to community revitalization works—this has been proven time and time again. Now, let's take a closer look at *why* it works:

THE POWER OF SMALL

Main Street was developed with the understanding that 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.

Ironically, Main Street's ability to understand and leverage the power of small is one of its greatest strengths, but also why it receives relatively little public funding or acknowledgment from state policy makers and traditional economic development professionals. Public officials like nothing better than announcing big projects, the bigger the better. Traditional economic development was about business recruitment and "elephant chasing." City officials would, for example, build an industrial park on the edge of town and then try like crazy to attract some plant, factory or distribution center to move there.

However, successful economic development is rarely 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 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. Cities would be much better off to dedicate their time and efforts toward smaller things that work synergistically together in a plan that makes sense.

THE POWER OF PLACE

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 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.*"

In fact, the unique characteristics of place may be the only truly defensible source of competitive advantage in a world where people can choose to live or work almost anywhere. In 2017, the Lincoln Institute for Land Policy released a report on *Revitalizing America's Smaller Legacy Cities*. The 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, diverging trajectories. It then set out promising strategies for success. Most of the strategies were unsurprising, but two stood out: "focus regional efforts on rebuilding a strong downtown and build on an authentic sense of place."

The Lincoln Institute recognized, just as Main Street managers do, 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.

The Main Street Approach was developed with the understanding that small, incremental improvements, when taken together, provide momentum for long-term economic transformation and improved quality of life in a community. Photo Credit: Ellensburg Downtown Association

DID YOU KNOW?

Most new jobs are in small businesses, while most of state economic incentives go to big business. The U.S. Small Business Administration says that "small business generated 64% of new jobs over the 15-year period between 1993 and 2011. They also say that middle market companies (those with revenues of less than $1 billion) produce 3 out of 5 jobs in high growth industries. Even in high-tech job centers, like North Carolina's Triangle Research Park, most jobs are in small businesses. In 2018 it was reported that 60 percent of companies located there have 25 employees or less.

Downtowns outsized role in regional economic development was illustrated in another 2017 report entitled *Core Values: Why American Companies are Moving Downtown*. The report by Smart Growth America and Cushman Wakefield listed 500 major American companies that have either relocated to, expanded or open new offices in "walkable downtown locations" in the past 5 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 and Walgreens, among many others.

When asked why they were moving, the number one reason was "to attract and retain talented workers," next was "to build brand identity and corporate culture." A third reason was "to support creative collaboration." So, there you have it. Downtowns are coming back to life because this is where *both* businesses and talent want to be.

THE POWER OF HISTORIC ASSETS

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. A city without a past is like a man without a memory. Daniel Webster recognized this when he said that "the man who feels no sentiment or veneration for the memory of his forefathers is himself unworthy of kindred regard and remembrance." At its essence, saving a community's 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. Literally dozens of studies over several decades have documented that preservation is good for the economy.

DID YOU KNOW?

The traditional economic development strategy was about cheap land and cheap labor. It was about shotgun recruitment and low-cost positioning. In the old economy, quality of place didn't really matter and the most important infrastructure investment was roads. Today, successful economic development is about laser recruitment and high value positioning. Today, highly trained talent is more important than cheap labor and investing in education and workforce development is far more valuable than widening the highway. Today, we live in a world where capital is footloose. People and businesses can locate anywhere. Communities and regions are in a global competition to attract and retain talented workers. Unlike in previous generations, these workers are choosing where they want to live first and figuring out their job situations later.

ECONOMIC DEVELOPMENT

20TH CENTURY MODEL	21ST CENTURY MODEL
Public sector leadership	**Public/Private Partnerships**
Shotgun recruitment strategy	**Laser recruitment strategy**
Low cost positioning	**High value positioning**
Cheap Labor	**Highly trained talent**
Focus on what you DO NOT have	**Focus on what you DO have**
Quality of life unimportant	**Quality of life critical**
Driven by transactions	**Driven by an overall vision**
Key infrastructure = Roads	**Key infrastructure = Education**

Main Street is an asset-based approach to economic development. It focuses on reusing and restoring the assets a community already has, rather than focusing on what it doesn't have. In Waterloo, Iowa, a Main Street America community, the former John Deere factory just reopened as a Marriott Courtyard Hotel.

PRESERVATION POSITIVELY AFFECTS 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, a ULI spokesman said it was because both employers and employees love space 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.

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, 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 Waterloo, Iowa, the former John Deere factory just reopened as a Marriott Courtyard Hotel. In Petaluma, California, an abandoned silk mill has morphed into a Hampton Inn and in Grand Rapids, Michigan, a vacant downtown office building has been reborn as a Homewood Suites Hotel.

WHAT CHOICE WILL YOU MAKE?

Economic development is about choices. Communities can spend all their time and money on business recruitment or they could focus on expanding existing businesses. When considering your community's approach to economic development, ask yourself this question: what makes more sense? Is it a better strategy to provide subsidies and tax breaks for big businesses or would it be wiser to invest in creating a great place and educating a skilled workforce?

In considering this question, it is essential 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, every other company will likely demand the same treatment. 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 investing in people and 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, at the end of the day, taxpayers end up investing in themselves rather than subsidizing big businesses.

WHAT MAKES MORE SENSE?

SUBSIDIES FOR BIG BUSINESS	INVESTING IN A GREAT PLACE
Pits one community against another	**Creates lasting assets that will pay dividends long after initial investment**
Moves economic activity around	**Helps existing businesses**
Businesses leave or threaten to leave after subsidies run out	**Creates diverse, durable local economies**
Puts all the eggs in one or two baskets	**Communities invest in themselves**
Taxpayers subsidize big business	**A more realistic strategy for smaller cities and towns**

So, rather than spending millions trying to attract a big corporation or "silver bullet solution," 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.