By Ed McMahon

Invest in a great place for prosperity

Why towns and small cities should consider the Main Street approach to economic development

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 DC, the other in Metro New York City. New York later withdrew its approval, so Virginia ended up with the big prize. Almost 240 US 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.

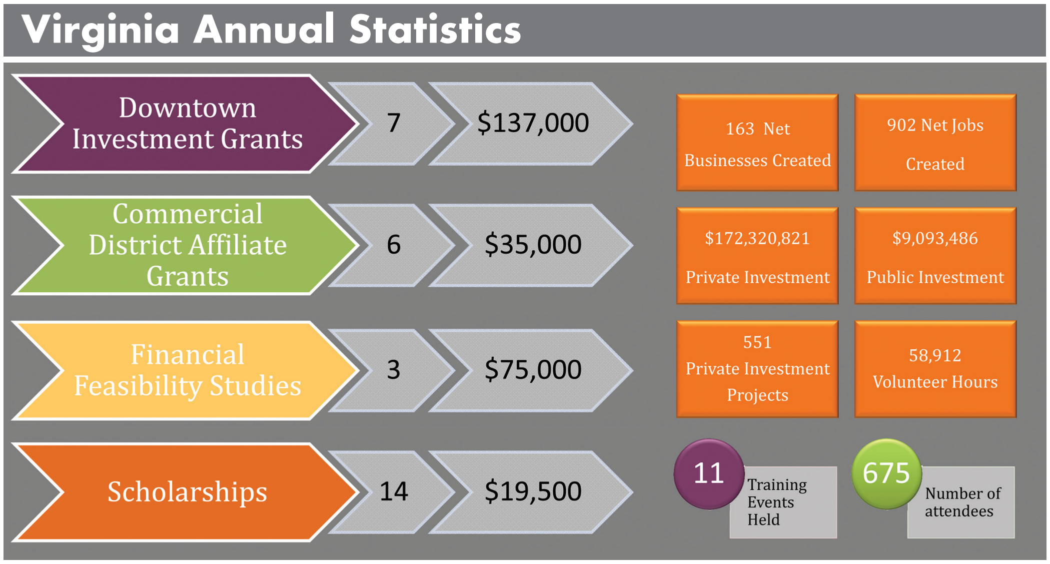
Both Metro DC and NYC have highly educated populations, easy access to international airports and functioning mass transit systems. Moreover, they both have the kind of walkable, mixed-use environments that attract young, talented workers. So, what are the lessons learned for the hundreds of cities that weren't chosen and for the countless others that could never compete economically for the likes of an Amazon? One lesson for cities, especially smaller cities and towns hoping to attract new talent is that instead of chasing big businesses, they should focus on building a great place as outlined in the Main Street Program's Four-Point Approach to economic development.

Over the past 25 years, the Main Street approach has a proven record of creating new jobs and businesses while also rehabilitating countless historic buildings and revitalizing thousands of downtowns and disinvested commercial corridors. Since its inception, Main Street communities have seen almost $75 billion in new investment, rehabilitated 276,000 buildings and created 614,716 net new jobs. What's more, every $1 of public money invested in Main Street communities, has leveraged over $26 of private investment. This is economic development as if return on investment (ROI) mattered.

Yet, despite its enormous record of success, the Main Street program in Virginia and elsewhere receives relatively little public funding or acknowledgment from state policy makers and traditional economic development professionals. In fact, most state economic incentives still go to big business. Why?

One reason the Main Street approach hasn't received more attention is because it typically involves modest projects in smaller cities and towns. Public officials like nothing better than announcing big projects, the bigger the better. Many local officials still think the traditional economic development approach of recruiting businesses and "chasing elephants" is the best. These officials try to spur economic development by doing things like building an industrial park on the edge of town and then trying to attract some plant, factory or distribution center to move there.

In fact, most new jobs grow out of existing businesses and are created by small businesses. The US Small Business Administration says that "small business generated 64% of new jobs over the 15-year period between 1993 and 2011." They also report 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. A 2018 report in the Research Park's Newsletter found that 60 percent of its employers had 25 employees or less.



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 is 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 rather than subsidizing big businesses.

The power of small

It is a mistake to think that economic revival is always about "the one big thing." America's 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, locality after locality has followed the copycat logic of big project mania. 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 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 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 contribute 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. In

this manner, 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, 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.

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, 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, VA, the Hampton Inn is in a restored manor house. In Waterloo, IA, the former John Deere factory just reopened as a Marriott Courtyard Hotel. In Petaluma, CA, an abandoned silk mill has morphed into another Hampton Inn and in Grand Rapids, MI, 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 Hampton Inn is a restored manor house in Lexington, VA.

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 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, diverging trajectories. Among the strategies for success outlined in the report were "focus regional efforts on rebuilding a strong downtown" 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 is a key to economic competitiveness. 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.

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