The business case for compact cities and towns

Innovation and access to good employees -- two reasons why businesses are choosing to locate in walkable downtowns and towns centers.

Better! Cities & Towns

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Who’d have thought that Detroit, the poster child for urban decay and fiscal insolvency, would attract more than 10,000 workers downtown in recent years, heading toward 15,000 by 2015? While the overall city is bankrupt, downtown is booming with residential and business development.

The reason is that billionaire and Quicken Loans founder Dan Gilbert has found that downtown Detroit is the best place in Michigan to attract talented young workers. Gilbert, who moved thousands of employees to a new headquarters, explains:

“People in their 20s and 30s, the best and brightest coming out of our universities, the vast majority of them want to be in a cool urban core in a hip city. Period. So, if we’re going to retain and maintain talent in our companies and have innovative creative people, we’ve got to make sure that we’re in the right locations that are going to generate the interest of those people.”

Blue Cross also brought 3,400 employees downtown in a move that saved the company $30 million in real estate costs while providing more and better quality space than the firm had in its suburban location.

These are two case studies in the report Smart Growth and Economic Success: The Business Case, published by US Environmental Protection Agency in November, 2013. The report lists three reasons why many businesses have reversed their outward migration and are locating back in town centers, urban neighborhoods, and downtowns. The EPA calls them ‘smart growth places,’ and explains they can be found in rural environments, cities, suburbs, and small towns. What smart growth places offer are:

• Increase productivity and innovation
• Better competition for labor
• Improved retail sales

“A well-established body of literature has demonstrated a link between metropolitan density and economic productivity,” the EPA report states. “A 2012 study estimated the size of the effect to be 2 to 4 percent higher economic productivity in a metropolitan area with twice the population density.”

The “competing for labor” argument is summed up by Gilbert, but also in the case study of Motorola Mobility, which announced in 2012 that it would move its headquarters and 3,000 employees from a northern Chicago suburb it had occupied for 18 years to downtown, “in part to increase creativity and innovation among workers and to increase access to the talent pool of Chicago’s universities.

Motorola Mobility’s chief executive officer said of the move, “We’re thrilled to bring our employees to downtown Chicago and infuse our company with the vibrant energy of the city.” Not only is there a better
talent pool downtown, but more workers can reach the site through mass transit connections.

In the suburbs, fewer businesses and residents have easy access to fixed-route transit, and service tends to be less frequent. See the table below.

<table>
<thead>
<tr>
<th>Geography</th>
<th>City Total Jobs</th>
<th>City Covered Jobs</th>
<th>City Rate</th>
<th>Suburb Total Jobs</th>
<th>Suburb Covered Jobs</th>
<th>Suburb Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>All 100 metro areas</td>
<td>38,344,050</td>
<td>36,308,908</td>
<td>94.7%</td>
<td>64,634,129</td>
<td>41,392,044</td>
<td>64.0%</td>
</tr>
<tr>
<td>Midwest</td>
<td>7,046,221</td>
<td>6,817,863</td>
<td>96.8%</td>
<td>13,911,008</td>
<td>7,864,253</td>
<td>56.5%</td>
</tr>
<tr>
<td>Northeast</td>
<td>7,684,947</td>
<td>7,672,237</td>
<td>99.8%</td>
<td>16,237,992</td>
<td>11,582,642</td>
<td>71.3%</td>
</tr>
<tr>
<td>South</td>
<td>13,055,197</td>
<td>11,756,520</td>
<td>90.1%</td>
<td>20,265,413</td>
<td>10,552,775</td>
<td>52.1%</td>
</tr>
<tr>
<td>West</td>
<td>10,557,685</td>
<td>10,062,288</td>
<td>95.3%</td>
<td>14,219,716</td>
<td>11,392,374</td>
<td>80.1%</td>
</tr>
</tbody>
</table>


EPA also reports that many companies, such as general merchandiser Target and grocery store chains, are discovering that sales per square foot are better in dense, urban locations. On the flip side of this coin, barriers to building retail stores are higher in urban locations. Nevertheless, many downtown locations are seeing an influx in retail stores.

“In historic downtown Los Angeles, a surge of new retail stores opened or announced plans to open in 2013 including two grocery stores and national chains like Ross Dress for Less, Zara, and Sport Chalet. The new businesses helped fill long-vacant storefronts and signal a new optimism among retailers about the potential to profit in a downtown location,” the report says.

Posted by Robert Steuteville on 24 Dec 2013