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Reinvesting in Older Industrial Cities

By Barry Bluestone, David Soule, and Joan Fitzgerald

NEW STRATEGIES FOR ECONOMIC COMPETITIVENESS

Given the desire to balance suburban growth with urban redevelopment, we attempt to answer a number of key questions: What really are the right conditions for attracting new development? What are the "deal breakers" – the obstacles and barriers – that make it difficult to attract new business to older areas? **What can be done through a collaborative effort between the commercial real estate industry and local and state public sector partners to make these deals happen?**

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INDUSTRIAL CITIES

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OVERVIEW

As a nation, we face critical choices about our economic future. We need to grow our economy in a way that builds on our strengths, doing so in an ever more efficient and sustainable manner. We need economic development that provides balanced growth between urban and suburban areas, bringing employment opportunity and economic and social vitality to both.

During the last half of the 1990s, as we came roaring out of the recession that began the decade, many urban centers did not experience anywhere near as much development as their suburban counterparts. Generally, attempts to encourage growth in many underutilized urban settings have not succeeded.

Given the desire to balance suburban growth with urban redevelopment, the Center for Urban and Regional Policy at Northeastern University set out to answer a number of key questions: What really are the right conditions for attracting new development? What are the "deal breakers" – the obstacles and barriers – that make it difficult to attract new business to older areas? What can be done through a collaborative effort between the commercial real estate industry and local and state public sector partners to make these deals happen? The Center for Urban and Regional Policy (CURP) was launched in 1999 at Northeastern University as a "think and do tank" – a center where faculty, staff, and students from the university pool their expertise, resources, and commitment to address a wide range of issues facing cities, towns, and suburbs. (www.curp.neu.edu)

Taunton, MA, on Boston's outer belt – I-495 – has a mix of older industrial sites available for redevelopment.

Considerable anecdotal evidence suggests that the *real* concerns of firms and the "deal breakers" business developers face in urban settings are often inadequately addressed. For the most part, this is not because municipal leaders and state officials are blind to the barriers or unresponsive to business needs. Rather, in an increasingly globalized, competitive economy, the business climate is constantly changing, requiring a high level of flexibility and rapid response. Moving quickly to meet changing business requirements and tailoring programs to particular industries is no easy task. Government officials at both the local and state level need to better understand this changing economic environment and must develop policies and programs that make doing business in older industrial cities profitable to stockholders and satisfying to managers and employees alike.

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NEW STRATEGIES FOR ECONOMIC COMPETITIVENESS

Given the desire to balance suburban growth with urban redevelopment, we attempt to answer a number of key questions: What really are the right conditions for attracting new development? What are the "deal breakers" – the obstacles and barriers – that make it difficult to attract new business to older areas? What can be done through a collaborative effort between the commercial real estate industry and local and state public sector partners to make these deals happen?

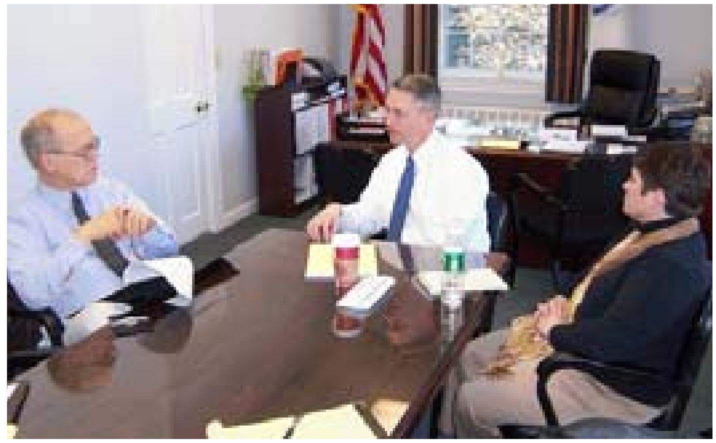
For ease of access and consistent local and state regulatory systems, we chose to limit our study area to the Commonwealth of Massachusetts and its localities. However, we believe that the issues and recommendations transfer easily to other areas because our focus is on the factor conditions in the real estate market. This research focused on cities in the Massachusetts area identified by business and government leaders as important urban centers – Boston, Chelsea, Holyoke, Lawrence, and New Bedford, and on six key industrial sectors, all identified as strategic by the Massachusetts state government: health care/life sciences, biotechnology, information technology, financial services, traditional manufacturing, and travel and tourism.

More than 50 business leaders and commercial real estate professionals were interviewed in order to determine the factors most important in location decisions. We focused in particular on firms that had an existing or recently established urban presence in one of these Massachusetts cities to determine which factors contributed to the decision to locate, expand, or remain in these urban locations. (The project can be found at www.economicdevelopment.neu.edu)

RESEARCH INSIGHTS

We expected confirmation of the prevailing perception that older inner cities are more unsafe and more polluted than "greenfield" sites, with under-performing schools and an insufficiently trained labor force. We did find these concerns voiced with respect to some of the cities, and undoubtedly those beliefs, whether reality – or simply perception – pose a high entry barrier for a good number of firms.

We also heard a wide range of anecdotes about amenities, suggesting that urban and suburban locations harbor a different set of advantages and disadvantages. One of our firms wondered "Where would we eat lunch if we located there?" That does not seem to enter into location decisions in suburban office parks far from the pubs and bistros that enhance many urban neighborhoods, but it raises an important competitive question that underlies misgivings about some urban settings. Another firm that specializes in athletic equipment pointed out that "our employees want to run at lunchtime or before or after work. Our location decisions must factor that into the equation."



Amesbury Mayor Thatcher Kezer III and his staff meet with David Soule and other CURP officials on a site visit.

Our interviews also confirmed the importance of what economists call "agglomeration" economies. Firms want to locate where other firms in the same industry already are established and where suppliers, distribution networks, and support services already exist. Many suburban locations seem to understand this well. Both beltways surrounding the Boston inner core pride themselves as "technology" corridors offering such agglomeration economies tied together by these circumferential highways. Our interviews clearly point to the importance of "getting that first firm in" and then building agglomeration economies by attracting others to the same area. Chelsea's success in attracting a biotech firm to anchor its urban renewal area is just one example. It is sufficiently close to East Cambridge's concentration of

Open Square in Holyoke, Massachusetts, is a multi-building mill complex which is being renovated for office and commercial use.

similar firms to provide the dense network of services and suppliers required.

It also became clear through our interviews that businesses seeking new locations for their operations – and the location specialists those businesses employ – often initially explore various location possibilities from afar by checking websites to gather relevant data on local communities. It is difficult for local officials to even get a chance to "show their wares" to prospective businesses unless they have attractive, compelling, and information rich websites that provide the precise information that firms normally seek when making location decisions.

We also identified a critical concern related to the risk/reward threshold that is factored into any location decision. The community development review and decision process, designed to maximize citizen participation in decisions affecting their neighborhoods, can create a sense of added risk and cost for businesses considering locating in urban areas. The cost of an extended approval process can discourage firms from choosing such locations, resulting in lost development opportunities. The extent to which municipal officials are perceived as partners in economic development and, more importantly, can manage the review process fairly, effectively, and efficiently, plays a significant role in attracting business investment.

Despite all of these potential barriers to inner city development, our research leads us to the conclusion that older industrial cities can still win the competition to attract a fair share of economic investment. This is already occurring in a number of the cities we studied. The first step is an honest, thorough appraisal of a city's strengths and weaknesses. We suggest that cities perform such a self-assessment with private sector partners as key participants in the appraisal. Perceptions need to be corrected when they are mistaken, and confronted when they are accurate. Who better to assist cities to accomplish this then the very firms they are trying to attract?

Chelsea, Massachusetts, is a small urban center across the Mystic River from the city of Boston.

Cities have the ability to create their own destinies, but they require resources, tools and information to compete successfully. From this vantage point, our research concludes that there are five critical issues that need to be addressed if we are to create the vibrant urban development environment that we believe is desired. These five ***"deal breakers"*** are addressed in detail in the next section. From our extensive interviews with industry leaders, and city and state officials, we have developed a series of action steps designed to "make the deal." Implementing these ***"deal makers"*** can help reduce or alleviate many of the barriers that firms face when they consider locating in older industrial cities.

KEY DEAL BREAKERS

From this research, we identified a series of barriers or "deal breakers" that must be overcome if older industrial cities are to compete successfully for private sector investment and economic development.

Deal Breaker # 1

> *Due to rapidly changing market conditions in the global economy, municipal leaders in older industrial cities often lack complete, up-to-date information regarding the specific location needs of particular industries and the recruitment efforts of competing locations. As a result, they are not always fully prepared to assist firms in a timely and effective manner, helping to overcome obstacles to inner city investment.*

A mayor, city manager, or economic development staffer who understands the needs of an industry and is empowered to be responsive to those needs is one of the most important factors in helping a deal move forward. In fact, such individuals can do more to enhance the competitive advantage of an urban setting than any other single factor.

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Chelsea's city manager, Jay Ash, is a model for 21st century urban leadership. He aggressively markets the city to prospective new companies; professionally applies the variety of incentives available; interacts with city agencies, boards, and commissions that must issue permits; and pursues favorable actions by state agencies and authorities in a timely manner. Cities do not necessarily need to change their form of government to one involving a city manager, but they do need to empower someone in the administration to specifically oversee the development process and respond aggressively and proactively to the needs of firms considering the city as a site for location.

Action Steps

- **Create a powerful self-assessment tool for cities to better clarify their economic development goals and identify their competitive strengths and weaknesses relative to other urban locations. Cities should work with a team of private sector developers to undertake an internal review of all aspects of the development process using the assessment tool.**

The interviews conducted for the study clearly indicate that cities play the development "game" differently, with differing rates of success. To provide a useful appraisal of a city's potential for economic development, a continual internal self-assessment, performed with the assistance of a private sector team, can provide critical information to city officials. This assessment involves evaluating a city's economic Strengths and Weaknesses, Opportunities and Threats – a so-called SWOT analysis – focusing on such issues as demographics, land costs, parcel availability, brownfield remediation efforts, public safety, and city amenities, along with an assessment of public agency efforts to reduce zoning and regulatory barriers.

The development of a computerized, comprehensive, interactive self-assessment tool would permit city officials to compare their city's performance with other municipalities around the state and around the country. Proper use of such an evaluation tool would help inform adjustments to a city's own development efforts.

For example, based on its research, CURP has developed a self-assessment tool that contains performance measures that are weighted depending on the relative significance of various factors in firm location decisions. Key "deal breakers" are weighted more heavily than other factors. Cities can see how they compare on over 200 key factors to their peers who have also undertaken the assessment. Individualized results allow each community to assess its relative strengths and weaknesses against all the others that have taken the survey.

Deal Breaker # 2

Business decision makers have well-defined "cognitive maps" – perceptions or expectations – about the attributes of and opportunities in older industrial cities that adversely affect the way they think about locating in these urban locations.

Older cities can win the race for *new* business enterprise as well, not simply retain what they already have. An observation made by one real estate specialist in a technology firm suggested a possible niche market for cities to explore. "We put our payroll and accounting functions in class 'A' office space. This is expensive and may not survive tough cost cutting measures down the road. We want our employees to be happy, but we could probably get away with cheaper space." If Class A space continues to increase in price, other areas may become highly cost effective.

Action Steps

- **Assist cities to make their websites more attractive, graphically rich, easy to navigate, and more useful to firms, developers, and location specialists. Improved websites would include information on the characteristics of individual available parcels, zoning and regulation, available financial incentives, and background data on demographic and economic characteristics of the locality. Websites could include testimonials from existing business leaders and messages from city leaders indicating the support firms receive in their municipalities.**

Cities in our study and across the country have websites designed for a variety of purposes, including attracting business investment. Developing an inventory of the "best" elements from city websites from across the country would enable the creation of website templates that can be used to guide the redevelopment and improvement of existing sites. A panel consisting of leaders from firms, developers, and location specialists could be assembled to help vet the best sites across the country in order to produce these templates.

Deal Breaker # 3

Specific urban site deficiencies can add excessive costs to doing business in older industrial cities.

Urban sites are often smaller in size than in suburban locations. Assembling urban parcels large enough to be competitive with open suburban areas can be a cumbersome process for the private sector. In past decades, cities were empowered through redevelopment authorities to intervene in the land assembly process and then to market the sites for new uses. But the federal assistance available for urban renewal has disappeared and

In the heart of the Hyde Park neighborhood in Boston, the former Westinghouse property is near commuter rail and other urban services.

state financial participation is uncertain, at best. A number of municipal officials we interviewed suggested parcel size and site assembly are still an impediment.

Action Steps

- **Encourage cities to create urban overlay zoning districts in which there can be flexible use, expedited permitting, focused public safety efforts, and amenity packages essential to creating competitive advantage in an urban setting.**

Cities should be encouraged to develop overlay-zoning districts as one component of a comprehensive response to the dilemmas of urban development. These can be of any size and take any shape. They are superimposed over land that is currently subject to specific zoning regulations including industrial and commercial use.

An overlay zoning district permits other uses to be specified and can include a wide range of controls and conditions that must be met in order to obtain site plan approval. Of the cities in our study, several are already using this provision to enhance economic viability in particular neighborhoods. These districts can be used to encourage high density mixed use around transit stations. Our research suggests that this mechanism, combined with several others, including expedited permitting, enhanced public safety efforts, focused education and training initiatives, if enhanced by various state incentives, could create a significant set of opportunities for urban locations.

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Pittsfield in Western Massachusetts benefits from new construction as well as older industrial sites including the former General Electric facility.

Deal Breaker # 4

> *State and local review processes can add excessive costs to doing business in older industrial cities.*

The review and enforcement process associated with cumbersome local zoning regulations and antiquated building codes can undermine a business deal by adding time, expense, uncertainty, and risk to the development effort, particularly in older industrial cities. The enforcement of state regulations can also pose significant hurdles to the development process.

Action Steps

- **Identify market ready, pre-permitted sites for industrial and commercial uses and market these parcels through city websites, site finder services, and other commercial site services.**

Our research indicates that this concept of "pre-permitted" sites could offer cities a compelling advantage in attracting industry to urban settings. While this proposal does not exclude community participation, it clears a number of hurdles out of the way before a firm even considers a location decision. This can be combined with an expedited permitting process that specifies the clear opportunities for community involvement, but establishes defined limits to the number of those opportunities and a fixed time period for development review decisions.

Deal Breaker # 5

> *Traditional public sector financial tools such as tax abatements, tax credits, and subsidies, while often strategically important as a deal closer, are not sufficient to attract high value business investment if previous deal breakers are not overcome.*

It is extremely important, and well within the capability of state and local officials, to resolve critical development hurdles in a timely fashion. "From our perspective," one development official reported, "time is money. We may actually be able to make a deal work more effectively if we can receive expedited permits and infrastructure enhancements, than by factoring in a tax subsidy into our pro forma." State and local officials need an effective protocol for communication and coordination on permits, grants, contracts, and information necessary to expedite location decisions and can potentially forego granting a tax subsidy if they pay attention to reducing these other costs.

Action Steps

- **Expand state economic incentives available to older industrial cities.**

Our research indicates that having financial incentives available assures firms of the city's commitment to aggressive competition. Cities that communicate that "we're open for business and that you're welcome" can compete successfully in the 21st century economy. To ensure that incentives are targeted to older industrial cities, it is important that at least some development tools of the state be heavily weighted towards urban factors (e.g. income, race, housing tenure, unemployment, etc.) in grant awards.

CONCLUSION

Implementing these "deal makers" can help reduce or alleviate many of the barriers that firms face when they consider locating in older urban cities. Despite all of these potential barriers to inner city development, our research leads us to the conclusion that older industrial cities can still win the competition to attract a fair share of economic investment. This is already occurring in a number of the cities we studied. Cities have the ability to create their own destinies, but they need sophisticated partners who can help them develop the tools and access the information required to compete successfully.

Chelsea's first new hotel in its urban renewal area benefits from high occupancy due to its proximity to Logan International Airport.

Working together, city officials, state development agency personnel, private developers, and economic development experts can help transform older cities into attractive sites for business investment. They may not be able to overcome all the "deal breakers" nor attract every firm, but based on our research, we sincerely believe that older cities can compete successfully for a share of new economic development.