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Amenity-driven Economic Growth

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IS IT WORTH BETTING ON?

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amenity-driven
ECONOMIC GROWTH

By Lawrence Houstoun

In a paper published last year by the Federal Reserve Bank of Philadelphia, economists Gerald A. Carlino and Albert Saiz (Wharton/Penn) reported on their analysis of growth determinants in 150 metropolitan areas. They found that places rich in what they call "consumptive amenities"– the things that make a city or town delightful such as parks, historic sites, museums and beaches – disproportionately attracted highly educated individuals and experienced faster housing price appreciation. "Cities offering more leisure opportunities – like an attractive waterfront or museums – gained an additional 2% in population over less attractive counterparts. Leisure amenities help stabilize cities that don't necessarily have the advantage of great weather, immigration or low taxes," Saiz says. Faced with a deep and prolonged recession, elected officials, planners, and development leaders should consider carefully what strategies offer the best prospects for economic growth. The report provides fresh and convincing evidence on this subject.

As urban America began to adapt to the post World War II economic changes, various strategies were attempted to counter the losses of jobs, businesses, population, and revenues in the older cities outside the Sun Belt. None succeeded.

The first strategy sought to recreate the successful industrial cities of the predepression 1920s when manufacturing was clustered near its workforces. The post war cities were left with obsolete plants unsuited to contemporary mass production. New federal housing policies incented mass movements of the working class to suburban locations where jobs were abundant and family cars increasingly affordable and necessary. Levittowns, for example, provided spanking new homes and US Steel and other manufacturers in new plants provided drive-to work sites.

By the 1960s, central business districts were losing retail market share to suburban competition, sometimes to malls anchored by branches of the traditional downtown department stores. Saving large department stores like Hudson's in Detroit became the new goal. But much of the middle class consumer market had also dispersed. Disdaining trams, buses, and trains, the highly mobile middle class favored retail concentrations with highway access and parking lots capable of handling the busiest holiday shopping days.

As the economy offered more service sector jobs, metropolitan locations outside central cities spawned office parks and well-to-do suburban

Central Philadelphia offers more than 3,000 outdoor dining seats and a regional reputation for quality food in family owned restaurants a block or two from homes.

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A reception between acts at Philadelphia's Academy of Music, America's oldest opera house.

commuters added a second family car or a third for high school age drivers. Soon there were more white collar jobs outside cities than within them. Downtown hotels, heavily dependent on weekday business guests, gave way to small highway oriented motels offering no frills bedrooms for business travelers. Older commercial centers, such as Newark, NJ, emptied and became famous as centers of crime, personal and property. Bad news fed bad news.

States created their own equivalents of the US Economic Development Administration and cities and counties formed economic development offices. Commonly, they offered beggar-thy-neighbor subsidies, producing bidding wars in which the suburban locations with the most money generally won out. Recently, new theories emerged.

BRAINY PEOPLE

In recent years, professor Richard Florida has promoted the idea that the key to becoming an economically successful city is to become a "Creative City," one that is appealing to predominantly young tech types such as those that helped spawn the dot com boom on the west coast. Cities must, in his view, be viewed as "cool" to this educated work force. The constructive legacy of his books was to underscore the importance of smart, well educated people to local economies. They secure patents, for example, and form small businesses not far from home. A 2007 Yankelovitch study reported that the age group 25-34 preferred to pick their place of residence before seeking employment.

In the 1970s, B. Joseph Pine II and James H. Gilmore wrote of the "experience economy" predicted to follow the service economy. Their concept that people assign the highest value to "memorable experiences," especially those that are interesting or educational, has contemporary value. This idea was picked up by business improvement districts such as Downtown Washington, which enlivened and marketed the district that had been notoriously empty at the end of the office workers' day and on weekends.

Even in hard times, somehow the cities favored by cultural assets managed to keep them functioning. No matter how poor a city's overall reputation, good presentations in old theatres continued to attract respectable audiences. Treasured by a few well-to-do residents, cultural institution fundraising was generally still successful. Cities still had the museums. Parks and plazas still drew parades and crowds. Even where hotel concierges advised guests not to venture outside after dark, some of the region's wealthiest still lived near their favorite theatre and restaurants in residences whose architecture remained popular. The amenities suited them and they had the luxury of locational choice. Thirty years ago, the famed developer James Rouse was quoted on the cover of TIME saying, "Cities must be fun," although few then envisioned that eventuality in the face of urban crime and blight.

A REVOLUTION IN TASTES

Cities that were the historic regional centers for arts and entertainment caught a following wind in the 1990s as increasingly better educated Americans, many of whom attended city based universities, began to reorder their life priorities. With only a third of American households including a single school age child, that impetus for suburban living affected fewer people. Some, in their fifties, wanted a retirement rich in favored activities and an end to highway commuting. A nice place to live increasingly was defined by what was outside the home, activities – experience opportunities – that appealed to educated adults. Philadelphia, PA, provides an example.

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The city's population declined from 2 million to 1.5 million from 1950 to 2000.The central business district continued to lose office and retail employment, from 41 percent of the metro area in 1993 to 28 percent in 2008. Only the Liberty Bell and the zoo drew out-of-towners and the typical visitor spent only two hours per visit.

About ten years ago, counter measures designed to draw visitors proved successful. A well financed business improvement district (BID) had already erased the reputation for litter, reduced the fear of crime, and generated a new reputation for fun that Rouse would have applauded. The state financed a large, centrally located convention center which supported thousands of additional hotel rooms within walking distance. Brighter pedestrian lights drew crowds to the sidewalks after dark, and the BID sold the city on tax incentives that stimulated residential construction.

The Philadelphia Museum of Art scheduled a special exhibit of Cézanne's paintings, one of only three in the world. The tourism agency head famously had earlier opined that "culture doesn't pay." That exhibit, however, produced the highest weekend hotel occupancy rates in Philadelphia's modern history. A well financed marketing campaign said, "Philly's more fun when you spend the night." Hotels enjoyed a boom in weekend occupancy.

Crime rates dropped, the place looked a lot better and, most important, there was a growing recognition that, as a proven success for visitors, Center City and adjacent neighborhoods were also attractive places to live. Residential construction there put modern apartments selling for millions of dollars overlooking popular parks and near where the orchestras and the opera performed. The population boom made Center City, downtown for the sixth largest city, the nation's third most populous CBD. Young people continued to live there years after a previous generation had long since moved to suburbs.

Surveyed office workers reported in 2008 that the most attractive reason for moving to Center City was the opportunity to walk to work. A decade ago, mature householders began abandoning their suburban lawnmowers and walked from their new Center City residences to the world's largest annual flower show. Five cinema screens devoted to foreign and art films expanded to 13 and boosted an annual film festival. Restaurants grew from 65 in 1992 to more than 200 with 3000 sidewalk seats. Surveyed visitors listed dining and arts and culture as the most popular reasons for coming. Broad Street was renamed The Avenue of the Arts and a non profit corporation was formed to market the theatres and museums there.

About 100,000 people, equal to the population of the state's fourth largest city, presently live in or adjacent to the CBD, an area of about two square miles. Although it is an economic development truism that residential development follows jobs, Center City's employment remained weak. If not job growth, what made the difference? Four factors contributed: amenities, convenience, security, and price.

1. Amenities – Carlino and Saiz noted in their research report that as Americans with the highest levels of education became wealthier, their tastes ran increasingly to luxury goods and influenced how they allocated their time. Weekend vacations were popular, offering time spent at a new exhibit plus overnight at a nearby hotel and stops at favorite restaurants. What the authors call Central Recreation Districts (CRDs) are the magnets drawing moneyed people to the concentrations of amenities (these often coincide with Central Business Districts).

In Philadelphia, these amenities include the Pennsylvania Academy for the Fine Arts and the recently expanded Philadelphia Art Museum; the country's oldest legitimate theatre (with the largest subscription list); the National Constitution Center; and crew racing competitions and an expanded waterside trail along the Schuylkill River. Other amenities include the performance hall for the two principal orchestras; a half dozen local theatre companies and other venues for theatrical road companies; parks within ten minute walks of almost everyone; and a large, award winning playground with a carousel used by visitors and residents.

The Philadelphia Art Museum has added a building to the one pictured at the top of the photo. Below is America's first waterworks, now a popular museum.

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The longstanding requirement that, in city assisted projects, one percent of construction costs must be devoted to art has produced hundreds of outdoor sculptures. There are also more than 2000 outdoor murals. The constantly changing scene for urban walkers and sidewalk diners is widely enjoyed. In 2009, Pew Research in a survey of visitors reported that 86 percent said Philadelphia was a "good" or "excellent" place to enjoy arts and culture.

2. Convenience – The ultimate convenience is to reside within walking distance of jobs and preferred amenities (40 percent of employed Center City residents walk to work). Urban walking has probably never been so popular as it is in the US today. Partly a product of the fitness movement, in cities it is benefitted by the abundance of things to see and do, experience opportunities. Walking to work is highly popular. Within a ten- or 15-minute walk there exists the densest concentration of employment anywhere in the seven-county region. Walkers also include university students whose classrooms and residences are within and adjacent to Center City.

3. Security – Jane Jacobs and William H. (Holly) White preached that lots of other people nearby offer greater reassurance than walking police. How to attract crowds? Part of the Philadelphia strategy involved a substantial investment in increased illumination, substituting brighter lights on 16-foot standards on sidewalks replacing the towering street lights common in many centers. The explosion of sidewalk dining referenced earlier was among the reassuring factors generating more pedestrians. Sidewalks are busy day and night because work places, recreation places, and residential places, each with different pedestrian cycles, are mixed.

4. Price – Although Center City has multi-million dollar luxury flats and duplexes, rents and prices have remained relatively moderate there and in adjacent, walkable neighborhoods. Middle class empty nesters can pick up a pied-à-terre or trade in the suburban home at a reasonable exchange. Many of the large, nineteenth century homes are now collections of rental flats, so there remains ample accommodation for students and others of modest means.

"A city like Philadelphia with so many low indicators in 1970…would have declined further were it not an attractive city," Saiz says. Overall, Philadelphia's population seems to have stabilized and the growth has been closest to the amenity concentrations.

Central Philadelphia's recreation resources include a canal berm open to cyclists, the Delaware river for sailors, and the Schuylkill River trail with 25 miles of hiking and biking opportunities.

In addition to attracting residents age 50 and older, Philadelphia is retaining young families which in decades past would typically have moved to suburban communities.

The lesson is that culture, attractive vistas and buildings, and opportunities for recreation and entertainment are vital economic assets, not frills as they are often treated. While office employee and visitor spending are important gains, resident households spend many times as much in central business districts as the other consumer groups.

A GREAT PLACE TO VISIT IS A GREAT PLACE TO LIVE

Many have suggested that attractive conditions probably boost growth. This study, however, tested what had been speculation, quantifying their conclusions. Carlino and Saiz examined leisure trips – places where people spent discretionary time and money – in 150 metropolitan areas between 1992 and 2002 as well as the concentrations of amenities in each. As reported in the *Boston Globe* (December 28, 2008), they found that "beautiful and charming cities draw a crowd, while the featureless and unattractive wilt like wallflowers…(T)he things that make cities delightful, such as parks, historic sites, museums and beaches disproportionately attracted highly educated individuals and experienced faster housing price appreciation." Philadelphia ranked 20 of the 150 studied places.

The authors observed that "While the American city generally did not come back in the 1990s, the beautiful city within flourished." The concentrations of amenities in Central Recreation Districts outperformed Central Business Districts (where they are not the same) as well as whole cities. The lesson is that culture, attractive vistas and buildings, and opportunities for recreation and entertainment are vital economic assets, not frills as they are often treated. While office employee and visitor spending are important gains, resident households spend many times as much in central business districts as the other consumer groups.

Reviewing the Saiz-Carlino report, the *Boston Globe* asks rhetorically whether it makes sense to continue the long standing practice of "investing in places that will never be attractive" rather than those that have good prospects and in many cases can accommodate far more residents than they have housed in generations.

The report's authors found a high correlation between the amounts of money local governments invested in recreation projects and related amenities and their relative attractiveness for leisure visitors. In Philadelphia's case, the connection between people seeking places with lots of pleasing experience opportunities and Center City's assets proved serendipitous; few anticipated that the future would be in residential development and, save for the improvement districts, few associated improved quality of life with economic gain. While assuming cause is always risky, Center City's experience seems to support the authors' conclusions. Is the Philadelphia experience unique? Far from it. Population changes in central business districts published by the University of Pennsylvania over the last decade trace a national trend toward residential growth in downtowns.

Will this last? The prospects for amenity based growth seem favorable. In the mid term, central places will be increasingly valuable as energy costs inevitably rise and some places will be more attractive than others on that basis alone. Can the benefits of amenity concentrations be extended beyond the CRDs? As distance increases from these concentrated benefits, the effect will doubtless diminish. But cities that preserve, expand, and improve popular amenities, including parks, bike trails, little theatres, and libraries, will have a competitive advantage over those that do not. Well run neighborhood amenities are more important to the educated and well-to-do households attracted to urban centers than are the taxes required to support them. Further, it is a growth strategy more likely to please voters than subsidizing a factory.

In the near term, the most likely policy change in a prolonged recession will be reduced government investments in, as the *Boston Globe* writers described it, "the things that make a city delightful." Still, urban recreational and cultural centers had the momentum to survive earlier downturns and may be expected to do so again, if only because of a greater recognition that amenities add economic value.

The century old Reading Terminal Market consists of two acres of food within walking distance of thousands of Philadelphia residents, adjacent to the Pennsylvania Convention Center and connected to subway and trolley lines.

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