The Next Big Challenge for Small Downtowns

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But in many smaller cities, the downtown renaissance doesn’t rest on such solid ground. Look to downtown Cincinnati or St. Louis and you’ll see large growth in residential and entertainment offerings, and major investment in civic spaces and buildings. What you won’t see is the same level of success in becoming growing centers of commerce.

For decades, jobs have been leaving downtowns and heading to the suburbs. In 2015, a City Observatory report suggested this might be turning around based on 2007-2011 data, but many downtowns were still losing jobs in that time, including Kansas City, Minneapolis, and San Antonio. A 2015 analysis by Wendell Cox found that just six cities were responsible for about three-fourths of all major-city downtown employment growth from 2010 to 2013: New York, Chicago, Boston, San Francisco, Seattle, and Houston. This shows the disparity between the major business and tech hubs and all the rest.

Traditional downtown employers like banks, utilities, and department stores have shrunk or closed. Many central business districts have become more dependent on public sector and quasi-public sector employers like eds and meds for growth. Providence, Rhode Island, for example, is powered by its high-quality hospitals and educational institutions like Brown University and the Rhode Island School of Design. City Observatory’s report found that eds and meds accounted for more than 100 percent of downtown job growth in the U.S. between 2007 and 2011. That is, without it downtowns would have lost jobs during that period.

Civic centers, government hubs, tourism and entertainment districts, and educational and medical clusters are all great things; they’re an important part of what makes downtowns tick. But commerce—true private sector commerce—is the beating heart of a downtown.
Because economies are dynamic, cities can’t simply rely on legacy employers to fill this role. They must always be creating new industries and new firms. After making great progress rebuilding the architectural, cultural, touristic, entertainment, and residential life of these downtowns, this is the next challenge for these smaller cities.

Urban leaders need to have private sector job growth in their downtowns at the top of their agenda.

Indianapolis is an interesting case study here. Indy achieved early recognition for its downtown revitalization based on its claim to be the “amateur sports capital of the world.” This was a tourism- and entertainment-led strategy similar to other cities, one that continues today. There have been 119 new restaurants in downtown Indy since 2012. Downtown is now home to 18 microbreweries, certainly more than enough for almost anyone.

This helped fuel demand for downtown living, along with more bustling streets, improvements to bike and pedestrian infrastructure, and new transportation options like Uber and an all-electric car-share system. As in similar cities, new buildings with thousands of apartments and new residents have physically transformed downtown. The growth rates in downtown housing and population are comparable to higher-growth suburbs: The city expects as many as 30,000 people to call downtown home by 2020, up over 10 percent from today.

But Downtown Indy’s employment levels haven’t seen the same boom. The Brookings Institution found a loss of 29,207 jobs in a three-mile radius of downtown between 2000 and 2010, a 17 percent decline. This did rebound somewhat after the recession. In the ZIP code at the heart of downtown, there have been about 4,000 jobs added since 2010, growth of just under 10 percent, but still below 2005 levels. Downtown has added very little office space in the last 20 years, and office vacancy rates were at 16 percent last year. Employment is heavily concentrated in the public and quasi-public sectors. According to Downtown Indy Inc., half of all jobs downtown are either in government or eds and meds. In short, downtown Indianapolis hasn’t made as much progress on the private sector job front as on the other parts of its downtown story.

Still, if private sector job growth hasn’t matched the apartment boom, there has been an uptick. In large part, that’s because of technology.

Much has been made of the downtown tech movement, but as with jobs generally, this has been most prevalent in the top-tier cities like New York, Chicago, and San Francisco. But Indianapolis is one of the smaller cities that has seen robust tech industry growth. Brookings ranked the region 7th in the country in its increase in national technology job share since 2010.

A good chunk of that growth has happened downtown. This included one of the Midwest’s premier startup stories, Exact Target, which was acquired by Salesforce.com for $2.5 billion. Salesforce has continued to invest in Indianapolis, now its second largest hub. It employs 1,500 people downtown, with promises to add another 800 and to train an additional 500 “apprentices.” In a highly symbolic move showing a changing of the guard downtown, the state’s tallest building was re-christened from the Chase Tower to the Salesforce Tower.

Another major downtown tech employer, Angie’s List, recently announced its pending acquisition for $500 million.

These are two solid wins, but the rest of the downtown tech ecosystem remains small. There are 61 tech companies in the core of downtown known as the Mile Square. But the handful of major firms like Salesforce dominate the tech employee count of more than 4,000. Most of these firms are tiny. Many won’t make it.

Any city can catch a lucky break and have a startup go big. The real question for Indianapolis is whether it can replicate the success of Exact Target/Salesforce and scale up the industry over time. It’s a different kind of tech, but some additional positive news came from Indian outsourcing giant Infosys’s recent announcement that it will open a 2,000-person downtown Indy hub.

But beyond tech, what else is happening? Cummins Engine, a Fortune 500 company based in nearby Columbus, Indiana, just built a new downtown Indianapolis office that will house nearly 500 people. They see it as important to recruiting the talent that company needs to compete in the future.
The problem for Indy is that unlike Chicago, which has a vast number of suburban and regional corporations it can lure to downtown, the Indianapolis region has a much smaller corporate base. So the potential for these kinds of office openings or relocations is limited.

So Indianapolis is seeing some wins in private sector economic dynamism and job growth, but has not yet reached the level there that it has in other elements of its downtown puzzle.

The tale is similar in other comparable cities. They have had a residential and entertainment growth explosion, but only a limited commercial resurgence. Still, there often is similar good news in many cities. Dan Gilbert has famously relocated much of his commercial empire to downtown Detroit. General Electric opened an operations center in downtown Cincinnati that will employ 2,000, a big vote of confidence in that city. Bridgestone moved its headquarters and 600 jobs to downtown Nashville.

Again the question is whether these are sustainable and can scale, or whether the green shoots that City Observatory found in downtown job growth fizzes out if the economy normalizes. Cities should not be blasé about this. While you can’t plan an economy the way you can plan a convention center, urban leaders need to have private sector job growth in their downtowns at the top of their agenda.

About the Author
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