

Special Report: Real Estate 2004

money

June 2004 www.money.com AOL Keyword: MONEY

What's your home really worth?

What's Next
for Prices

PAGE 68

How to Unlock
Your Home's
Value

PAGE 76

Best Places to
Live on the Coast

PAGE 128

23 Future Hot Spots

PAGE 86

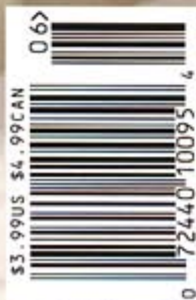
The Essential
Homeowners
Checklist

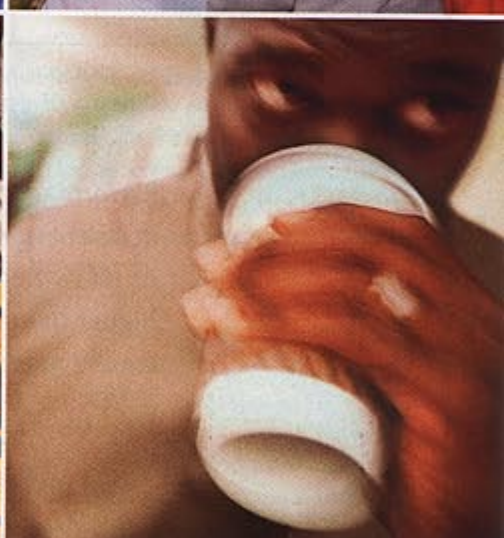
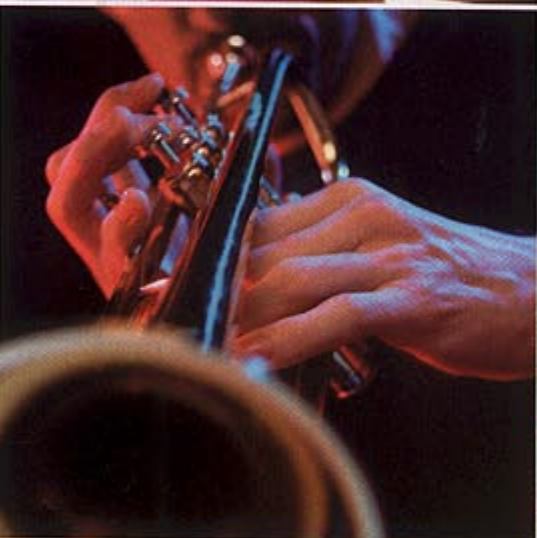
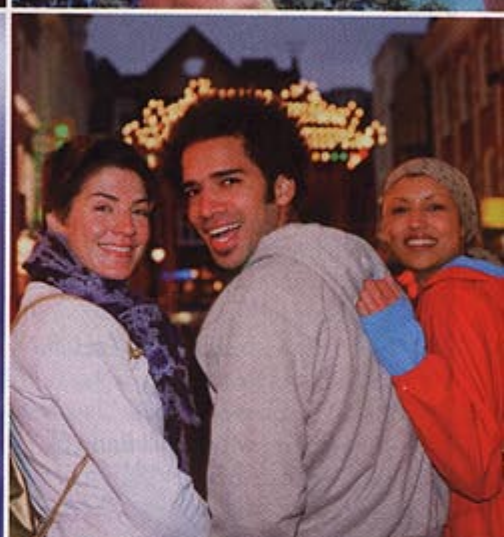
PAGE 94

Renovations
That Pay

PAGE 109

» Page 60





What makes a place

h

o

t

Escalating home values, job growth, new immigrants, a lively music scene—turns out that they all go together

by Jon Gertner

Richard Florida likes to chat about cities the way most people chat about movies or pop culture. This is not to say that Florida, a professor at Carnegie Mellon University, likes to discuss the best chicken enchiladas in Santa Fe or the best sculpture gallery in New York City. Florida tends to talk instead about the kinds of questions that tie big-city mayors in knots. Why does one metropolitan area thrive as another languishes? Or, to be more specific: Why has Austin become cooler than Pittsburgh? ■ Florida's methods for evaluating cities took shape in his popular 2002 book *The Rise of the Creative Class*, where he argued that a powerful new class of individuals now makes up some 30% of the U.S. work force. Based on interviews, focus groups and statistical research, Florida defined this class as men and women, employed in industries from law to engineering to computer science, who are paid to "create" ideas, content or technology. He then linked the group to a dozen or so metro areas that pull in young, educated

workers like a powerful electromagnet. At the top of his list of creative-class cities? Places with what he calls “the three Ts”—technology, tolerance and talent. Cities like Austin, Houston, New York, Raleigh/Durham, N.C., San Francisco, Seattle and Washington, D.C. The stragglers? Places like Detroit, Memphis and the professor’s own city of Pittsburgh.

These rankings have proved controversial. For starters, there’s been the debate over what makes a city attractive or “creative” in the first place. Is it culture, or a pleasant environment? Does an uptick in new jobs mean a city is hot, or does it depend on what kinds of jobs are being created? And what about the cost of real estate? If this is the most compelling indicator of a city’s appeal, as Florida believes, can’t it also drive away the young and creative types? Finally, there’s quality of life, that fuzzy phrase we talk a lot about but have trouble explaining. Florida’s work has sparked a spirited debate about how intangibles—excitement, attitude, open-mindedness, buzz—are crucial parts of a city’s image. Clearly, the professor believes that how a place feels matters as much as, say, its mass-transit system.

There happens to be plenty at stake here. There’s broad agreement that our cities are

changing—organizing themselves in tiers, with a few select places attracting many more college graduates and skilled workers. “There’s a sorting going on, most certainly,” says Mark Muro of the Brookings Center on Urban and Metropolitan Policy in Washington, D.C. “And to the extent that the economy is sorting, it is going to create winners and losers.” This process affects individuals as well as places, since a vibrant location can mean a lot to your future. Where you live now, or where you decide to live next, will determine not only the appreciation rate on your house but your salary and employment opportunities for years to come.

And as Florida was quick to point out during a recent conversation in downtown Manhattan, where you live will probably determine whom you date, the extent of your social network and whether or not you ultimately get the one thing out of life that everybody wants.

No, not a plasma television. A home.

The Minneapolis story

As a paid consultant, Florida often suggests that cities should look to successful role models like Austin or Seattle at the same

Minneapolis

Florida calls Minneapolis’ metro area “a model of how you incubate creativity,” with a lively arts community, a cluster of fine schools, high-tech jobs and a culture that’s open to diversity.



Pittsburgh

His own city, Florida says, is one of those places that “ask people to fit into their norm rather than let them be who they want to be.” Too often the young and entrepreneurial leave.



Previous spread: From top (left to right): Chris Volk/Superstock; Helen King/Corbis; Joe McBride/Getty Images; Matthew Hranek/Art & Commerce; Alan Schlein/Corbis; Antonio Moja/Getty Images; Jose Luis Pelaez/Corbis; Kellie Walsh/Superstock; Ed Hanowitz/Getty Images; Superstock; GDT/Getty Images; Paul Edmundson/Corbis; this page: Richard Cummins/Lonely Planet Images (left); Corbis

The top 10

Carnegie Mellon professor Richard Florida's rankings of the most creative cities with populations of over 1 million:

San Francisco

Austin

San Diego

Boston

Seattle

Raleigh/Durham, N.C.

Houston

**Washington, D.C./
Baltimore**

New York City

**Dallas tied with
Minneapolis/St. Paul**

time that they nurture their own unique qualities. He doesn't believe that new sports stadiums or pedestrian malls are the key to a city's rejuvenation. He does, however, believe that buzz and energy are very real factors in a city's popularity and that a thriving counter-culture helps foster a robust urban environment. "The same kind of community that allows a music scene, an art scene, a gay scene to develop also allows entrepreneurs to come into those communities to mobilize resources," he says.

Florida's gay and bohemian indexes have landed him in the midst of the culture wars, sparking a furor that seems to drown out some of his more central ideas—namely, that diversity, night life, entrepreneurship and education can pay big dividends to a city, and that place is becoming even more important than vocation to skilled, educated people in their twenties and thirties. "Place is the central organizing unit of the creative age," Florida maintains. "I think place has replaced the corporation because it matches people to work."

It's important to understand that even if you aren't looking for a hot new city in which to live—and even if you are over 40—the 18-to-39 demographic can be crucial to you and to your region's health. A recent census report on the late-1990s migration of young, single, college-educated men and women made the point that they bring to a city large amounts of human capital, which helps increase entrepreneurship and deepen the area's talent pool. The same migration brings people who stimulate development by moving to neglected neighborhoods and making long-term investments in schools, homes and businesses. One example of this is the increasing rate at which young people are abandoning America's farm-belt towns. As South Dakota and Nebraska have emptied out, Minnesota, Indiana and Illinois have filled up. Minneapolis/St. Paul, in particular, has enjoyed a good decade, growing both in total population and in the number of young, educated people. In Florida's rankings of creative regions, the Twin Cities tie Dallas for 10th place, just behind such cities as Austin, San Diego, Houston, Boston and Raleigh/Durham.

In fact, Florida cites the Minneapolis region as a useful case study in creative-class success. Chilly winters aside, Minneapolis has good rock

bands, good schools, good jobs and what he calls a "progressive" political culture. "I think Minneapolis may be a model of how you incubate creativity," Florida says. "It has a large arts and cultural community, a marvelous educational cluster, high-tech industries. And it's the kind of community whose heritage has always been open to diversity." The fact that St. Paul is the state capital helps, he adds, since it ensures a base of jobs and a culture of business networking. But above all, the Minneapolis metro region seems able to retain a significant percentage of its skilled natives and college graduates.

This stands in sharp contrast to Pittsburgh, which Florida insists has a tough time keeping people after they finish their studies at Carnegie Mellon or the University of Pittsburgh. As he sees it, the Iron City, which created some of the great fortunes in history and had a standing in its day not unlike contemporary Seattle, has never been able to shake off a conformist business culture. "Some places ask people to fit into their norm rather than let people be who they want to be," says Florida. "The thing we hear all the time in our focus groups is that people want to go to a place where they can just be themselves. If you're an inventive, entrepreneurial type person, that matters a lot to you.

"If you ask me," he adds, "I think Pittsburgh is one of the greatest cities in the world. It has richness, authenticity, smart people, fabulous artists. But what happens is that those young people are told, No, no, no—you're not valid, you're not as valid as the CEO of U.S. Steel." Florida argues that Steve Jobs and Steve Wozniak could never have built Apple Computer in Pittsburgh because local bankers would have turned them away on account of their long hair and T-shirts. He then brings up Lycos, an Internet search company begun at Carnegie Mellon that quickly moved to Boston for lifestyle reasons and a larger talent pool.

What's so distressing to Florida is that in 1992, he compared the demographic data of Pittsburgh and Austin and decided they looked pretty similar. "I benchmarked both places," he says. "Then



Minneapolis and St. Paul attract educated young people

Austin invested in technology. They lured companies. What they said was, 'We're going to make Austin really unique. We're going to make it the kind of place that you'll never want to leave.' Twelve years later, the prospects for the two places are like night and day. And it's not just job prospects, says Florida. "If you invested in a house 12 years ago in Pittsburgh, it's worth basically the same today. If you invested in a house in Austin or D.C. or New York 12 years ago, who knows how many times it's multiplied in value."

The high school question

Success can strike a backlash, however. Housing costs have put many hot cities out of reach of the young people who boost their vitality. In a new report, economists Karl Case and Robert Shiller describe New York, Boston and San Francisco as glamour cities where the ratio of home price to income is surprisingly high. Florida himself says he wonders if the creative places that he "inadvertently glorified" in his book are sustainable. He thinks it possible that a place like Pittsburgh could benefit in the long run. If the city could relax its business culture and become more welcoming, couldn't it be an alternative to, say, Boston?

Some urban analysts who've taken issue with

Florida's rankings are saying similar things about other American cities. For instance, Joel Kotkin, the author of several books on cities and urban issues who teaches at Pepperdine University, has called attention to encouraging demographic trends for small cities, particularly in the Midwest. "You have to look at the question of where wealth can be saved," says Kotkin. "What are the places where you can actually have money left over after rent, taxes and other costs?" For these reasons, Kotkin sees a declining interest in San Francisco and Boston and a resurgence in less expensive places like Indianapolis, Fargo, N.D. and Columbus, Ohio that are gaining population after years of decline or stasis. As Kotkin explains it: "A lot of young people have told me, 'If I could afford to live in San Diego or Boston, I would live there. But I'm 32 years old and I'll never be able to live there.' I think a lot of Americans are starting to realize that their first choices are no longer choices."

Kotkin makes a persuasive case that wealth is starting to disperse to more family-friendly locations. New York, for instance, which in the 1950s was home to 140 Fortune 500 companies, now boasts just 41. Since 1990, 97% of the growth in the securities industry has taken place outside of New York. "How do you build a sales or marketing department in a city where no one can afford to live?" Kotkin asks. Financial and tech companies will, by necessity, grow in affordable places like Orlando or Des Moines, he adds. And talent—if it isn't there now—will follow. "People go where the jobs are," he insists.

The challenge for mid-size older cities with a legacy of manufacturing losses, neglect and racial division is more complicated. Recently, Kotkin and the demographer William Frey completed a study on the future of St. Louis. The

Up & coming cities

To identify cities that will attract members of the creative class 10 years from now, Carnegie Mellon's Richard Florida and his team studied the growth in what he considers creative-class jobs between 1999 and 2002, wage growth in those jobs, wage inequality, population density and per capita income growth (1990 to 2000). Here are the leaders, by population size.



Over 1 million

Oakland
Buffalo
Baltimore
Indianapolis
San Antonio



500,000 to 1 million

Napa, Calif.
Ann Arbor
Harrisburg, Pa.



250,000 to 499,999

Saginaw, Mich.
Brockton, Mass.
Salem, Ore.
Charleston, W.Va.
Madison, Wis.



Below 250,000

Bremerton, Wash.
Hagerstown, Md.
Monroe, La.
Muncie, Ind.
Clarksville, Tenn.



International

Sydney, Australia
Malmö, Sweden
Calgary, Canada
Oulu, Finland
Toronto, Canada

city has great attributes: a rich history, reasonably priced housing, excellent universities and a strategic position, geographically speaking, to attract college-educated Midwesterners in their twenties and thirties. But like Pittsburgh it has a business culture that alienates the less conventionally minded, a dysfunctional center city and an inability to retain the young and the educated. What St. Louis needs, Kotkin says, is a new attitude. Immigrants and young people need to feel that they won't be pigeonholed. Over



Austin is “the kind of place you’ll never want to leave”

and over in Kotkin's research, new arrivals said they were asked by St. Louis natives, “What high school did you go to?” It's a damaging question, Kotkin believes; the city needs to make newcomers feel they will be automatically accepted, not automatically judged.

As it happens, there's more common ground between Kotkin and Florida than either of them might admit. Both of them see America's cities involved in a furious fight for good people and a strategic niche—a fight in which tolerance, business opportunity, quality

of life and affordability can make all the difference. One problem, says Kotkin, “is that I don't think everyone can win. And I think history will tell you that prosperity never abides long in one place. There's only so much capital. And there are only so many smart people.”

At home and abroad

Which brings us to the question of where to live or whether to move if you or someone in your family happens to be in the market for a new hometown. Betting on whether a city's reputation will rise or fall is bound to be tough. “City economies are much like big thunderclouds on a summer day,” says John Kasarda, a longtime observer of urban trends who teaches at the University of North Carolina at Chapel Hill. “You look inside and there are updrafts, downdrafts, turbulence. There is always tremendous change taking place.” But momentum can keep things moving. In hot cities, a critical mass of youth and talent assembles to make it their home.

Then they tell their friends, who in turn tell their friends. Such an effect can last for decades, especially if a city can spawn a company such as Dell Computer or Microsoft that grows and grows until its wealthy employees reinvest in small businesses, neighborhoods, foundations and schools. Success begets success.

Still, in recent months Florida has been wondering whether some places—even some thriving metro areas—may be blindsided by global forces in the next few years. He's begun to organize these thoughts into a book tentatively called *The Flight of the Creative Class*, a title that suggests a far more anxious message than his first. In part this reflects the worry that skilled young people are being priced out of the most exciting cities. But Florida is mainly concerned about two other things. First, that our metro areas will face a diminishing influx of skilled immigrants, owing to a foreign policy that has begun to alienate people from overseas who consider relocating here for school or jobs. Second, that American students are increasingly willing to work and settle abroad, not necessarily for political reasons but because the Internet and a global economy mean a global network of friends and employment prospects.

Florida now believes that the most attractive places in the next generation of cities may be Canadian—Toronto and Calgary—and that a new global order will not pit Boston against Austin for jobs and talent, but Boston against Dublin. “I believe that the U.S. has the most amazing transformative capacity,” he says, “and also that we're still the leading country. But those places are beginning to become open. They're beginning to see that our strength in the U.S. has not been our market size, not our own intrinsic genius, not the fact that we have raw materials, but that we've been open. We've always been the place that has attracted the tired, hungry and incredibly energetic. And I think these other countries are increasingly pursuing that.”

He sees that Ireland and Sweden are beginning to mobilize. “They're making beautiful places, attracting people, reaching out to immigrants from around the world,” he says. He asserts, for instance, that the film industry that sprang up around *Lord of the Rings* in Wellington, New Zealand will lure talent away from Hollywood. So Pittsburgh and St. Louis might face an even tougher challenge in the years to come. Already, Florida says, the bright lights of Oulu, Finland are starting to beckon.

And he's pretty sure about one other thing: There's something about Sydney. **E**