

***The Rebirth of Older Industrial Cities:
Exciting Opportunities for Private Sector
Investment***

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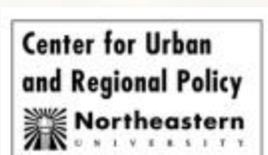


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Executive Summary

In a unique undertaking, the National Association of Industrial and Office Properties (NAIOP) and the Center for Urban and Regional Policy at Northeastern University (CURP) have collaborated to investigate new approaches municipal officials and state agencies can employ to help attract new development to inner city communities. This research benefited from financial and technical support from NSTAR, the Pioneer Valley Planning Commission, and the Merrimack Valley Planning Commission.

Our goal in this project was to identify the key “deal breakers” that act as barriers to urban development and to identify potential public and private sector strategies aimed specifically at overcoming these obstacles to inner city corporate investment. We expected confirmation of the prevailing perception that older inner cities pose greater public safety problems and contain more environmentally polluted sites than “greenfields” in suburban locations. We also expected to hear that poor inner city schools and a poorly trained labor force made inner city locations less desirable places for investment. These concerns were voiced by a number of the developers, business leaders, and location experts we interviewed.

But, over and over again, we heard something more. These barriers are real, but they can be overcome if city leaders take a proactive, aggressive stance to meeting the complex needs of firms looking to start up operations, relocate, or add new facilities. Firms are willing to consider older industrial sites and abandoned “greyfield” commercial districts if municipal leaders and state agency personnel can work with them as a team to expeditiously solve problems related to zoning regulations, brownfield remediation, permitting, and an array of related factors that can be barriers to investment in a fast-changing globally competitive economy. Indeed, we discovered a number of emerging urban entrepreneurs who are choosing inner-city locations as cost effective places to do business. Providing a forum for their experiences to be shared broadly within the business community could encourage other firms to consider older industrial cities for their start-up or expansion purposes.

The research focused on sites identified by officials in Boston, Chelsea, Holyoke, Lawrence, and New Bedford, and on six key industrial sectors, all identified as strategic by the 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 the study cities to determine what factors contributed to the decision to locate, expand, or remain in these urban locations.

Key Deal Breakers/Deal Makers

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. In order to address these critical issues, we have developed a series of “deal makers” or action steps that we recommend to enhance the capacity of urban development officials to compete successfully for business investment. The most important of these deal makers are included after each deal breaker.

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.

While most municipal leaders are aware of the difficulties involved in attracting business investment to their communities, they continually need new information about market conditions and the particular needs of specific industries to attract economic development. Continuously assessing their own strengths and weaknesses, especially with respect to competing locations, is critical to success.

Key Deal Makers/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.*
- *Provide ongoing economic development training for municipal leaders and managers that focuses on how to tailor responses to opportunities in different sectors.*

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 can adversely affect the way they think about locating in these urban locations.

Attitudes and opinions about individual cities – particularly those with a higher proportion of low-income households – change slowly, often lagging behind reality. As a result, firms, developers, and location specialists may overlook business opportunities in urban areas.

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.

Key Deal Makers/Action Steps

- ***Assist cities in making 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.***
- ***Assist communities in combining resources regionally in order to market and respond to inquiries from firms, developers, and location specialists.***
- ***Enlist companies – the “urban pioneers” - already located in inner cities as ambassadors. Businesses offer the best testimony to other businesses on the advantage of urban locations.***

Deal Breaker # 3

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

Municipal leaders in older areas must deal aggressively with a series of specific deficiencies that may inhibit firm location in their cities including public safety concerns, brownfield remediation, parking constraints, and tax delinquency liability.

Key Deal Makers/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.***
- ***Encourage the adaptive re-use of “greyfield” assets (e.g. abandoned shopping plazas) through appropriate zoning and regulation.***
- ***Make changes in the brownfields regulatory program for the re-use of urban sites to facilitate faster clean up and further limit liability.***
- ***Change state rules overseeing municipal property taxation that force new owners to pay delinquent taxes of previous owners.***

Deal Breaker # 4

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

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 urban sites. 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 the economic development system and, more importantly, can manage the review process fairly, effectively, and efficiently, plays a significant role in successful economic development.

Key Deal Makers/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.***
- ***Create a permit system that allows for a single presentation of a development proposal to all review boards with jurisdiction in the city and establishes a specific time frame for community response in the initial stage of the review process***
- ***Reframe state programs such as an “environmental justice” executive order designed to encourage development of contaminated sites so they do not have the unintended consequence of discouraging potential developers.***

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.

Given the development of new financial mechanisms, local public officials may have an incomplete understanding of such strategic financial instruments as tax credits, tax abatements, and land subsidies which can be used to reduce business costs and encourage economic investment in older industrial cities. New opportunities under District Improvement Financing legislation in Massachusetts, for example, are available for public investments in critically needed infrastructure.

Key Deal Makers/Action Steps

- ***Locate state and municipal facilities in urban locations to stimulate creation of amenities and other attractions to spur private sector commercial and industrial investment.***
- ***Use the Tax Increment Financing (District Improvement Financing in Massachusetts) program to create revenue streams for critical infrastructure in urban locations.***

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. 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.

I. Introduction

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, we set out in this research project 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?

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.

To assist local communities and state agencies, and working through a unique collaboration with the Massachusetts chapter of NAIOP, the national NAIOP research foundation, NSTAR, and four Massachusetts regional planning agencies, the Center for Urban and Regional Policy (CURP) at Northeastern University set out to discover practical strategies for maximizing the existing advantages these older areas enjoy and for overcoming competitive disadvantages they face when pitted against “greenfield” suburban sites.

This research focused on sites identified by officials in Boston, Chelsea, Holyoke, Lawrence, and New Bedford, and on six key industrial sectors, all identified as strategic by the 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.

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.”

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 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 than the very firms they are trying to attract?

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.

II. Deal Breakers and Recommended Deal Makers/Action Steps

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.

As noted in the introduction, the economy is becoming ever more global and the pace of economic change ever more rapid. Firms are in constant transition, face more intense competition, and have become more sophisticated in their location decisions. To attract firms, municipal officials and local agency personnel need to understand and respond with equally sophisticated insight and flexibility in order to meet the location needs of firms. While most municipal leaders are aware of the difficulties in attracting business investment to their communities, they continually need fresh information about changing market conditions.

Our interviews also clearly indicate that firms in different industry clusters often have very different needs. For example, biotechnology industry executives, who head firms that are in or near the manufacturing stage, suggest that speed to production, proximity to their research and development facilities, and proximity to supplier firms are most important in their location decisions. Similarly, a number of trends in the financial services industry lead to important considerations in developing an urban strategy. These include mergers and consolidation of individual firms and the outsourcing of technology. According to one spokesman, “the real estate decision is about 4 percent of our cost. Labor is the key driver in cost cutting decisions.” This last concern is a key factor in many decisions in the industry, including the “offshoring” of services -- the relocation of business functions and processes out of the country to take advantage of lower costs. This makes not only older urban locations less competitive, but suburban locations as well. To the extent, however, that a large well-trained immigrant population exists in older industrial cities makes it possible, in some cases, to compete with offshore production.

Moreover, as one leader in the information technology sector emphasized, there are other reasons why older urban areas may hold their own against offshoring. “It’s about management,” he noted. “When I have to send managers to a third world country for six weeks, they drink bottled water and eat peanut butter crackers they bring from home. They do it, but they don’t like it. If I offered to send them to Chelsea, Holyoke, or Lawrence, they’d take it in a minute. This might be something to think about. You already hear 10 or 12 languages in our cafeteria at lunch time – Hindi, Urdu, Hebrew, Japanese, Chinese, and Vietnamese and an occasional Irish brogue. Maybe we can build on that strength.”

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. 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.

Deal Makers/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 type of assessment would involve 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. As envisioned, the assessment tool would contain performance measures that would be weighted depending on the relative significance of various factors in firm location decisions. Key “deal breakers” would be weighted more heavily than other factors.

- **Provide ongoing economic development training for municipal leaders and managers that focuses on how to tailor responses to opportunities in different sectors.**

Based on information from the current project, a training structure and curriculum for a one to three day seminar could be developed and made available to city officials and municipal agency personnel, especially in older industrial cities. The curriculum would include information on “deal breakers” and “deal makers” as well as on the use of the self-assessment tool, and the elements of a successful website (see Deal Breaker #2). The curriculum could be structured for easy export to cities throughout the country. Specific training modules and teaching tools could also draw upon “best practice” success stories and would cover specific topics such as the sophisticated use of financial incentives in a coordinated development strategy.

- **Provide development specialists to cities to assist in monitoring, interpreting, and responding to new market trends.**

Cities need access to specialists who understand changing market conditions in order to generate timely, flexible responses to changing economic conditions. It is inappropriate and inefficient for any individual city to go at it alone. Therefore, we recommend a direct partnership with state agencies and private sector specialists. For example, the Massachusetts Office of Business Development maintains specialists in the following industrial sectors: Agriculture, Biotech/Medical Devices, Fiber Optics/Photonics, Financial Services, Food Processing, Healthcare, Manufacturing, Plastics/Advanced Materials, Seafood/Fisheries, Telecom/IT, and Textiles. They should be readily available to individual municipalities to help them with development efforts.

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.

Attitudes and opinions about individual cities, particularly those with a higher proportion of low-income households, change slowly, often lagging behind reality. As a result, firms, developers, and location specialists may overlook business opportunities in an individual city. Older industrial cities often have high concentrations of racial and ethnic minorities, as well as neighborhood blight -- two factors that contribute to a perception and a reputation that they are high-risk places for investment. These perceptions, whether based on fact, myth, or legend, have a virulence that is not easily dispelled even as improvements in these cities are made. Public perception and outdated “cognitive maps” about the presumed negative attributes of older industrial cities need to be corrected when they are mistaken, and confronted when they are not. Our interviews suggest that when this occurs, there is compelling evidence of companies thriving and expanding in older urban locations for solid business reasons.

One life sciences spokesman said he would not consider a greenfield site because the company thrives on daily proximity to university professors and students and to hospital researchers -- most of whom are located in older cities. He mentioned that Cambridge is recognized worldwide as a cluster for biotechnology based on Harvard University and MIT. The existence of millions of square feet of underutilized or abandoned factory buildings in East Cambridge a decade ago provided just the right combination for the renaissance of this once rundown section of the city.

The importance of inertia in explaining why firms stay put was explained by the head of a manufacturing firm in a city just off the beltway. Asked why his firm had not considered moving, his response was, “because we’re from here.” However, he also mentioned educational institutions, finance capital, diversity, and infrastructure all of which contributed to the firm’s desire to remain in an older city. Capitalizing on these factors can help a city retain existing firms.

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.

New Balance is a traditional manufacturing company that has facilities in two of our study cities - Boston and Lawrence – and reflects both the value of remaining in the cities where they began as well as moving to cities where costs were reasonably low. According to Richard Shanler, manager of Facilities for New Balance, “we have deep roots in Boston. We were founded in 1906 and have been in the Boston area since the beginning.” The company has just opened its new corporate headquarters within walking distance of its original facility. But, the company also located new operations in Lawrence in 1981, purchasing an old mill building and refurbishing it for manufacturing and office space. Its 24-year commitment to Lawrence is part strategic. The company has three other locations in Maine. Lawrence is on the right transportation corridor. But as Shanler notes, “We were in the city when it was the arson capital of the U.S. For a while, being in Lawrence meant that we couldn’t always recruit our first choice for a position. However, we don’t have that trouble any longer. Lawrence is coming back.” Such urban “pioneers” often benefit from finding a site when property values are quite low and see the value of their location rapidly increase as the city burnishes its new reputation and attracts new investment.

Deal Makers/Action Steps

- **Assist cities in making 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.

- **Create a recognition and award program for firms that locate in urban areas and for cities that have effectively overcome underlying liabilities.**

Working with interested organizations, an expanded recognition program (e.g. awards, media, etc.) for older industrial cities could be established as an important step toward changing negative perceptions. An annual award to cities that effectively overcome underlying concerns about their urban development potential would complement similar efforts that honor urban businesses. Sponsors should be sought to endow the awards program to enhance the recognition.

- **Assist communities in combining resources regionally in order to market and respond to inquiries from firms, developers, and location specialists.**

Regional collaborative efforts are critical to respond to inquiries from firms, developers, and location specialists. Building on the recommendations of this report and the official roles that public sector regional agencies already play in urban economic development, regional agencies

should take the lead in coordinating training for the municipalities in their areas. Further, these agencies could help bring public and private sector resources together to market their regions, working with other economic development organizations including chambers of commerce, regional economic development councils, and statewide organizations that market sites to businesses.

- **Enlist companies located in inner cities as ambassadors. Businesses offer the best testimony to other businesses on the advantages of their location.**

Many existing firms are committed to urban settings and have provided economic opportunities for inner-city areas. We also discovered that there are newly emerging urban entrepreneurs who are choosing inner-city locations as cost effective places to do business and develop properties. Providing a mechanism for their experiences to be shared broadly within the business community could encourage other firms to consider older industrial cities for their start-up or expansion purposes.

For example, Chelsea attracted Alkermes, a biotech firm, to the city. This is due in no small part to the aggressive and responsive actions of the city manager, Jay Ash, but also required a commitment on the part of Jim Frates, the CFO of Alkermes, to take the risk. Frates notes that Chelsea is a short 10-minute ride to Cambridge and Boston. For us, “The partnership between the public and private sectors was key. Our CEO Richard Pops, recently served as chairman of the Mass Biotechnology Council where our experience was shared with similar firms.”

Deal Breaker # 3

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

Municipal leaders in older urban areas must deal aggressively with a series of specific deficiencies that may inhibit firm location in their cities, many of which are well-publicized and well-recognized. These include higher crime rates, brownfield pollution, difficulties in land assembly, parking constraints, greyfields (e.g. abandoned shopping centers), and tax delinquency liability.

Public safety is an ongoing issue for cities. While it is legitimately part of the “cognitive maps” problem described above, it is a critical competitive deficiency for urban firms that must provide expanded private security to complement even the best community policing efforts. One police chief expressed frustration that despite aggressive crime sweeps that pull gangs and drug dealers off the streets, he finds the offenders on the streets the next day due to lenient state courts. While this study is not designed to deal directly with the criminal justice system, the externalities attending this failure pose a serious problem for urban site managers in attracting and keeping tenants. One mill owner suggested that his tenant, a back office banking operation, was considering leaving the facility for a higher cost suburban mall location because the woman manager in the facility did not feel safe.

Brownfields are industrial sites with significant contamination, and for this reason are often not considered to be desirable places for development. Successful community brownfield

redevelopment initiatives have to overcome five types of barriers – liability, information, cost, time, and uncertainty. Environmental laws have been updated in recent years, with the goal of encouraging redevelopment by providing liability relief for specified classes of redevelopers. This has been helpful, but careful monitoring of the cost of cleanup and the locus of liability needs to be maintained. State efforts to ensure that firms willing to set up operations in older industrial cities do not bear a disproportionate risk for brownfield remediation is a key element in attracting investment and needs to be encouraged.

Several participants in the study are also alarmed at the rate of conversion to other uses of land currently zoned for industrial development. The City of Boston “backstreets” program (which parallels similar “Main Streets” efforts to revitalize small retail areas, and now, with the assistance of the state is being considered for other cities) is specifically focused on protecting industrial sites from encroachment. Another strategy involves mixed use development where a portion of large abandoned industrial buildings can be used for new industrial purposes along with a portion for the creation of badly needed new housing (e.g. work/live and artist loft units).

We heard from a number of industry specialists that creating and expanding parking facilities is a critical issue. Structured parking can be created in some locations but is constrained in many urban settings. “The mills were built when people walked to work.” The owners of one mill near a new commuter rail station have partially overcome this constraint by leasing a floor in the new parking garage at the new intermodal transportation center the transit authority is building across from the mill. However, structured parking is often difficult to build and finance because the rates that can be charged are insufficient to produce an adequate revenue stream. An official in a growing technology firm said the decision to locate in a suburban city just outside the urban core was an easy one. “There, real estate goes for \$15-\$30 a square foot vs. \$40-\$80 in Cambridge and parking is free at our location, but difficult in Cambridge.”

“Greyfields” is a term that emerged in recent years to describe older abandoned shopping centers and strip malls. According to a Price/Waterhouse/Cooper study for the Congress for the New Urbanism, greyfield malls are “typically 32 years old... with [multiple] competing retail centers within five miles...[that have declined or been abandoned because of] changes in trade area competition and demographics, [or] poor management and tenant behavior.”¹ A number of the cities in the study have such facilities on the books. New urbanists are developing multiple strategies to reclaim these sites for a variety of uses, including transit-oriented development where appropriate and mixed-use development, including residential, retail, and even commercial office space.

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

Dealing with tax delinquent property is another potential hurdle. Tax delinquent property must pass through the state’s land court in order for the city to gain a clear title. Communities often

¹ PWC Global Strategic Real Estate Group, Greyfield Regional Mall Study, Congress for the New Urbanism, January 2001, p. 6.

face a prolonged process, taking as much as seven years to process these transactions. Some cities have managed to work the court system to their advantage, and (in good markets) are almost always able to acquire the property, or get the delinquent tax money.

However, our interviews with private sector development specialists suggest that tax delinquency creates a cloud over the properties, even if the city is successful in gaining title. In order to recoup the legitimate losses the city has suffered over time, they place a lien on the property that must be cleared for the property to transfer to a new owner. While logic suggests that the city would be better off forgiving the lien and returning the property to productive use, state regulations, at least in Massachusetts, often prevent this from happening, forcing the new owners to pay the delinquent taxes. This can be a “deal breaker” for such properties.

Deal Makers/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. (See Appendix B for concept diagram).

- **Use grant programs like those established originally to support extensions of highways into suburban office parks, as well as other infrastructure financing mechanisms, to provide structured parking in urban settings.**

State laws allow the creation of parking authorities to bond for the construction of garage facilities. However these authorities often do not work because they cannot charge enough to retire the bonds on the garages they build. Grant programs from the state highway department, such as those allowing funds for the construction of suburban highway interchanges, should be extended under the rubric of “economic development and public works” to help pay for parking structures in older industrial cities.

- **Encourage cities to protect land currently zoned for industrial use from encroachment through the creation of planned manufacturing districts.**

State zoning laws need to permit cities to create planned manufacturing districts (PMDs) that allow older industrial areas to be preserved and buffered from encroachment by other uses (residential, retail, etc.). PMDs replace zoning on land already zoned for manufacturing by creating an industrial area in which land use is specifically defined and uncontestable. A number of cities around the country, Chicago in particular, are seeing a rebirth in a number of their industrial areas because firms can make investments in equipment and expansion without worrying about encroaching uses forcing them out.

- **Make changes in the brownfields regulatory program for the re-use of urban sites to facilitate faster clean up and further limit liability.**

In many older urban industrialized areas, elevated levels of various common contaminants are widespread – i.e., they would exist even in the absence of any specific “release” or “site of concern.” Such common contaminants are routinely present in urban fill and typically include combustion byproducts, various common metals, including lead, and petroleum constituents.

These “background” constituents can rarely be attributed to a particular release, source, or “disposal site,” and appear to be precisely the situation legislatures had in mind in enacting the statutory background concept. Yet, at least in Massachusetts, the definition of “background” sites containing urban fill and other instances of such widespread contamination require at least some response actions (assessment and/or remediation). The cost and time required to go through this process, which for most urban developments results in no real net benefit, present yet another obstacle to the successful redevelopment of brownfield sites. To expedite and make the development of properties with typical urban contamination and no other known point source(s) of contamination more attractive, we suggest that states consider establishing a policy that provides the developer with a streamlined compliance approach.

- **Change state rules overseeing municipal property taxation that force new owners to pay delinquent taxes of previous owners.**

For a private developer, reclaiming tax delinquent property for productive use carries the additional burden of paying off the tax lien. The public sector problem is getting control of the property from delinquent owners. Once they gain tax title, cities are restricted under state laws from easily forgiving the tax liens because the unpaid liability has been calculated into their taxable properties inventory. We recommend that state laws governing municipal acquisition and disposition of tax delinquent property and the courts that oversee them (the Land Court in Massachusetts) be thoroughly reviewed to expedite the reclamation of sites for economic development. One observation emanating from our research even suggests that the recovery process itself could be privatized, awarding some of the proceeds to “agents” of the city who would attempt to collect delinquent taxes from the original party.

- **Encourage the adaptive re-use of “greyfield” assets (e.g. abandoned shopping plazas) through appropriate zoning and regulation.**

Efforts should be made to reuse greyfield sites by developing an inventory of underperforming or abandoned greyfield sites in each city with a determination of the causes and current issues surrounding these sites. To the extent that sites are close to transit stations, they should be evaluated for transit-oriented development. Since these sites were developed with large parking lots, these locations could immediately serve to alleviate the parking problems in urban areas on a short-term basis. However, longer-term strategies for adaptive re-use are more constructive. A number of greyfield sites have been re-zoned for mixed use including housing, retail, and commercial office space with high levels of pedestrian access. This practice should be expanded.

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.

The development review regulations, designed to maximize citizen participation in decisions affecting their neighborhoods, can add risk and cost to choosing an urban site where the community is heavily organized. Groups that oppose development, for whatever reason, have multiple venues to express that opposition in many forms. This tyranny of a small group of committed opponents can especially work against cities that desperately need jobs and added tax base to provide basic services.

Even the best of regulations can have unintended consequences that need to be evaluated and monitored. For example, in Massachusetts every site we reviewed is wholly contained in a state designated “Environmental Justice” area. These are lower income areas, often with large racial and ethnic minorities, where there are significant environmental hazards. Not surprisingly, many of these EJ areas are in older industrial cities. State policy, promulgated by the Executive Office of Environmental Affairs, while focused on protecting these populations from industrial pollution, nevertheless requires the state to focus on economic re-investment in these communities. There is a potential contradiction here. Simply by identifying a site as located in an environmental justice policy area can have the unintended effect of adding to the negative perception of such areas, driving business investment away rather than attracting it.

Cities will be successful competitors for business investment if they can effectively manage community input in the process. This requires balancing the legitimate concerns of abutters and neighbors against the requirements of businesses seeking to locate there. The extent to which municipal officials are perceived as partners in the economic development system and, more importantly, can manage the review process fairly, effectively, and efficiently, plays a significant role in successful economic development.

Another significant challenge developers face is a lack of coordination on the city end. According to one developer, cities try to be very helpful and accommodating. However, sometimes the lack of communication among and between local agencies in the same city can be a problem. Our interviewee described a situation in which one of their developments was finished and scheduled to open, but due to a lack of coordination at city hall the building was connected to a sewer line that was already over capacity. This fact was probably not purposefully withheld, but a lack of communication between the branches of government left the developer with a critical problem, jeopardizing the receipt of an occupancy permit at the last minute.

Executives in the biotechnology cluster expressed a great deal of frustration over the unpredictability and slowness in getting necessary state and local zoning and permitting. Once a product has passed its final (Phase III) trials, a biotech firm wants to get the new product into

production before another company does, and, of course, to begin to generate revenue. Speed is so critical that some companies start building the production facility before the product is approved. For example, Genzyme began construction on its Allston facility in Boston prior to completion of Phase III trials in order to be ready as soon as approval was granted.

One strategy being actively explored is the identification of sites within communities that meet all of the existing requirements for companies in certain industries. Cities would submit these sites for review and “certification” as “market-ready.” This is being tested in Massachusetts in the biotech sector through a collaboration with the Massachusetts Biotechnology Council, the Massachusetts Development Finance Agency, and the Massachusetts Alliance for Economic Development, state’s Department of Business and Technology, and the Office of Commonwealth Development.

Deal Makers/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.

Successful cities also recognize that a variety of factors need to be included in a comprehensive economic strategy. While aggressively securing enhanced transportation access and adequate infrastructure capacity, cities need to promote themselves by linking to the state’s development goals. Urban locations need to be included on every list of sites offered by state officials. Cities also need to be partners in every public/private effort to market the state.

- **Create a permit system that allows for a single presentation of a development proposal to all review boards with jurisdiction in the city and establishes a specific time frame for community response in the initial stage of the review process**

City review processes of development plans need to be reviewed in a timely fashion with minimal delay and red tape. Municipalities usually have multiple boards, commissions, and professional staff that must review development proposals. Each review has specific requirements that must be addressed. Many also require public hearings. However, nothing in state law requires that the hearings must be sequential or separate. Several cities take advantage of this and hold a combined board meeting with all boards present to allow the developer to make a single presentation and then follow up with the boards and commissions proceeding to complete their statutory functions in a timely manner.

- **Reframe state programs such as an “environmental justice” executive order designed to encourage development of contaminated sites so they do not have the unintended consequence of discouraging potential developers.**

We recommend that every state regulatory program that affects the time and extent of permitting development in older industrial cities be reviewed to confirm that the additional requirements are justified. It is important to ensure that adding expanded opportunities for comment and intervention are balanced against the potential that development opportunities may be lost. We clearly heard that risk and uncertainty are critical factors in the location decision. Toward that end, we believe that regulations focused on urban settings should be streamlined with clear time frames to complete the development review decision.

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.

Our interviews revealed that most firms contemplating a location decision initially consider such factors as private land cost, transportation, public safety, and the ability of municipal leaders to overcome development process barriers before they consider the value of various tax incentives and subsidies. Hence, cities that try to sell themselves solely on the grounds of low taxes are likely to attract few firms and particularly few high-value, stable companies.

One executive reported that tax rates are not a key factor for high-tech companies, since they pale in comparison with other costs of doing business. He also pointed out that tax rates *anywhere* in the U.S. are lower than in Europe.

Nevertheless, given the development of new financial mechanisms, local public officials may have an incomplete understanding of how to strategically use tax credits, tax abatements, and land subsidies to seal the deal without “giving away the store.” Opportunities under Tax Increment Financing legislation (District Improvement Financing in Massachusetts), for example, are available for public investments in critically needed infrastructure. Understanding how to creatively use T/DIF can enhance the ability of older cities to attract private sector investment.

Massachusetts, like most other states, has a set of tax incentives made available to firms locating in cities and towns. This Economic Development Incentive Program was originally conceived to overcome the competitive disadvantages of urban locations. However, the definition of economic target areas is now so broad as to minimize the urban focus. From the perspective of older industrial cities, the extension of economic development incentives offered by state governments to suburban locations reduces the value of these tools as an incentive to urban investment.

It is also 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.

Deal Makers/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.

Following 1995 legislation in Minnesota, states can also create commercial-industrial property tax reductions of 10-15 percent for development projects within one-quarter mile of public transportation nodes.

- **Use the Tax Increment Financing (District Improvement Financing in Massachusetts) program to create revenue streams for critical infrastructure in urban locations.**

The creation of TIFs in core cities can offer a substantial alternative to traditional methods of financing infrastructure capacity. This program is now available in over forty states, including Massachusetts, and can be used by cities in their development tool kits. Once again, states need to place a high priority on districts in blighted areas seeking to attract development. By returning tax revenue generated through development above the original assessed value for improvements in the area, TIF districts can optimize their ability to leverage state and private improvements.

An enhancement to the traditional TIF could be to link the tax increment to developments that are accessible to public transportation. If this effort is coupled with more intensive brownfield redevelopment and a comprehensive transit-oriented development strategy, a powerful synergy could be created.

- **Create a set aside (a given percentage of each bond bill) in the state's capital budget (housing, information technology, transportation, etc.) to support investments in urban settings.**

A percentage of each bond bill should be set aside in an "urban initiative fund," which is available to cities on a priority basis. Bonding for traditional infrastructure improvements such as transportation, water and sewer would initially seed the fund. However, states like Massachusetts also bond for housing and information technology. Most housing created or subsidized under state capital funding is already focused on low- and moderate-income families and is concentrated in urban areas. The urban initiative fund would create incentives for combining housing investments with other infrastructure to support an integrated approach to urban economic development, especially in overlay districts established under the guidelines suggested above. Information technology enhancements are in the capital budget of many states. We recommend setting aside a portion of these investments to facilitate the creation of "state of the art" websites in partnership with cities to enhance their marketing capabilities.

- **Locate state and municipal facilities in urban locations to stimulate creation of amenities and other attractions to spur private sector commercial and industrial investment.**

We recommend that the state and cities prioritize the location of public facilities in urban settings as “pump primers.” In our study, we confirmed that locating a 400,000 square foot Massachusetts Department of Revenue facility in Chelsea attracted another 500,000 square feet of office development. The location of the new Boston Police Headquarters adjacent to Melnea Cass Boulevard and the placement of state offices such as the Registry of Motor Vehicles in Lawrence are other examples. Although Worcester is not one of our study communities, in the 1980’s the state put significant resources into successfully locating the UMass Medical complex in the city as a successful anchor to emerging health care and biotechnology industry clusters.

- **Expand state infrastructure investments (water, sewer, transportation) to support older industrial city economic development.**

Cities need quick and flexible responses from state and federal agencies that permit or participate financially in infrastructure improvements. One of the prime tenets of “smart growth” is to place development in locations where infrastructure already exists. The prevailing wisdom is that it is cheaper to utilize highly developed road and transit networks and “in place” public water and sewer systems than it is to build these systems in suburban and ex-urban locations. However, our research indicates that the water and sewer systems in many older industrial cities are at or near capacity. We recommend that a protocol be established that mandates coordination with key state and local development officials to expedite renewed infrastructure investment in these cities where necessary to help make new business investment more feasible.

III. Lead Actor on Deal Makers/Action Steps by Sector

Successful urban economic development requires collaboration between the public and private sectors at many levels. As our research progressed, it was informed by frank and in-depth conversations with business and industry development and location specialists. We also had the benefit of the active participation of a number of state, regional and local officials. Everyone we interviewed felt that under the right circumstances, with the right set of policies, incentives and actions, cities can successfully compete for their share of economic growth.

To facilitate the consideration and implementation of the deal-makers and action strategies to overcome the deal breakers, we have identified five key actors – state government, city government, regional planning agencies, businesses, and universities. Each of these entities needs to take the lead in creating appropriate responses to the deal breakers we have identified. In the sections below, we have sorted these action steps by actor. We look forward to a continuing and expanded dialogue about each of these proposals.

State Government

- **Provide development specialists to cities to assist in monitoring, interpreting, and responding to new market trends.**
- **Expand state economic incentives available to older industrial cities.**
- **Use grant programs established to support extensions of highways into suburban office parks and other infrastructure financing mechanisms to provide structured parking.**
- **Make changes in the brownfields regulatory program for the re-use of urban sites to facilitate faster clean up and further limit liability.**
- **Change state rules overseeing municipal property taxation that force new owners to pay delinquent taxes of previous owners.**
- **Reframe state programs such as an “environmental justice” executive order designed to encourage development of contaminated sites so they do not have the unintended consequence of discouraging potential developers.**
- **Create a set aside (a given percentage of each bond bill) in the state’s capital budget (housing, information technology, transportation, etc.) to support investments in urban settings.**
- **Locate state and municipal facilities in urban locations to stimulate creation of amenities and other attractions to spur private sector commercial and industrial investment.**
- **Expand state infrastructure investments (water, sewer, transportation) to support older industrial city economic development.**

City Government

- 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.
- Enlist companies – the “urban pioneers” - already located in inner cities as ambassadors. Businesses offer the best testimony to other businesses on the advantage of urban locations.
- Encourage cities to protect land currently zoned for industrial use from encroachment through the creation of planned manufacturing districts.
- Encourage the adaptive re-use of “greyfield” assets (e.g. abandoned shopping plazas) through appropriate zoning and regulation.
- 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.
- Create a permit system that allows for a single presentation of a development proposal to all review boards with jurisdiction in the city and establishes a specific time frame for community response in the initial stage of the review process
- Use the Tax Increment Financing (District Improvement Financing in Massachusetts) program to create revenue streams for critical infrastructure in urban locations.
- Locate state and municipal facilities in urban locations to stimulate creation of amenities and other attractions to spur private sector commercial and industrial investment.

Regional Planning Agencies

- Provide ongoing economic development training for municipal leaders and managers that focuses on how to tailor responses to opportunities in different sectors.
- Assist communities in combining resources regionally in order to market and respond to inquiries from firms, developers, and location specialists.

Business

- Create a recognition and award program for firms that locate in urban areas and for cities that have effectively overcome underlying liabilities.
- Use the Tax Increment Financing (District Improvement Financing in Massachusetts) program to create revenue streams for critical infrastructure in urban locations.

Universities

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

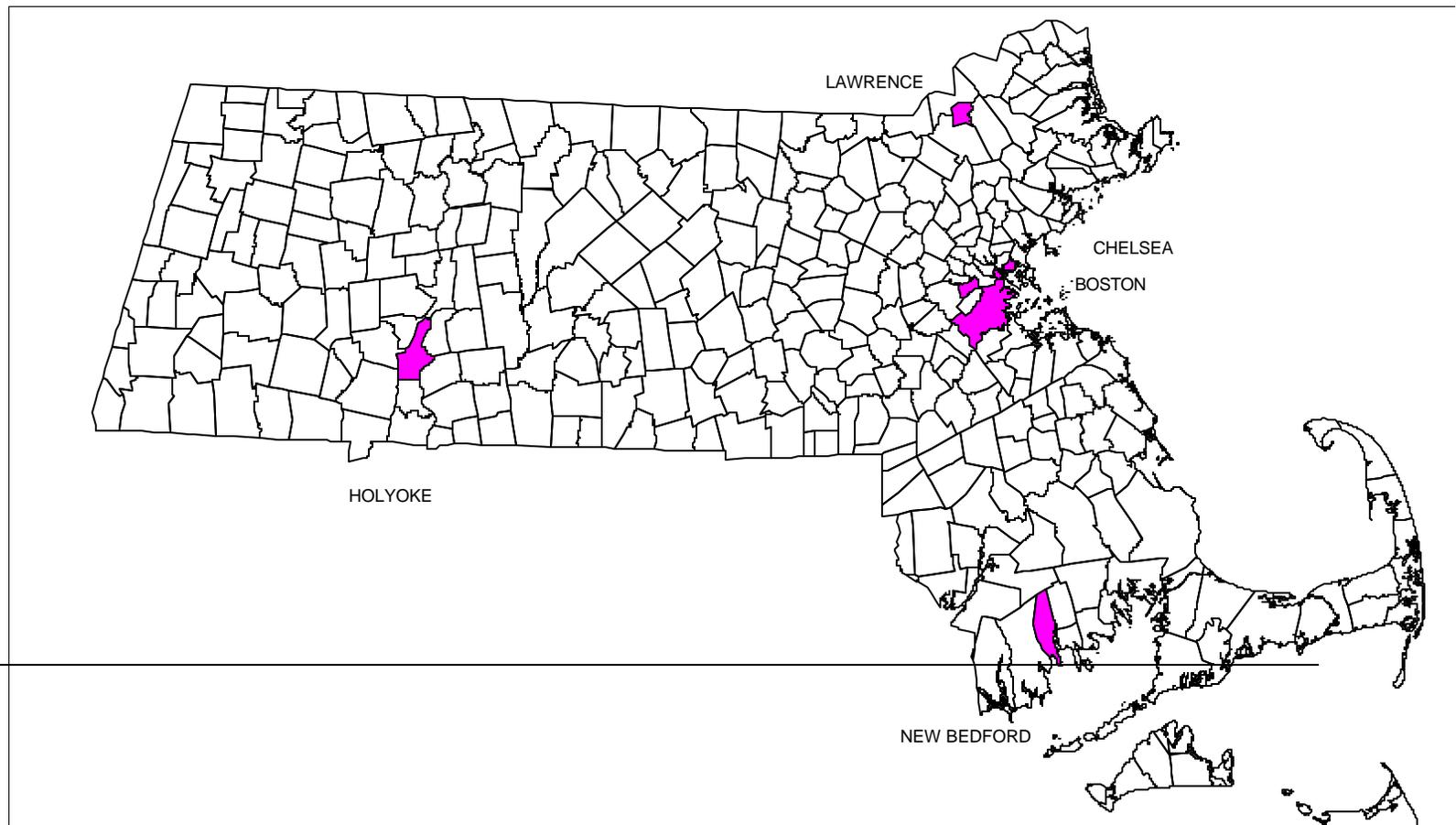
State Government	City Government	Regional Planning Agencies	Business	Universities
<p>Provide development specialists to cities</p> <p>Expand state economic incentives to older industrial cities</p> <p>Public Works and Economic Development grants for parking</p> <p>Make changes to brownfield regulations</p> <p>Make changes to tax delinquent rules</p> <p>Reframe state programs such as the environmental justice</p> <p>Urban initiative set aside in the state capital budget</p> <p>Locate state and municipal facilities in urban locations</p> <p>Expand infrastructure investments</p>	<p>Urban overlay zoning districts</p> <p>Enlist existing businesses as ambassadors</p> <p>Protect land currently zoned for industrial use</p> <p>Adaptive re-use of "greyfields" (e.g. abandoned shopping plazas)</p> <p>Pre-permitted sites for industrial and commercial uses</p> <p>Single presentation of a development proposal</p> <p>Tax Increment Financing</p> <p>Locate state and municipal facilities in urban locations</p>	<p>Provide ongoing economic development training</p> <p>Combine resources regionally</p>	<p>Create a statewide recognition and award program</p> <p>Tax Increment Financing</p>	<p>Create self-assessment tool</p> <p>Assist cities in improving their websites</p>

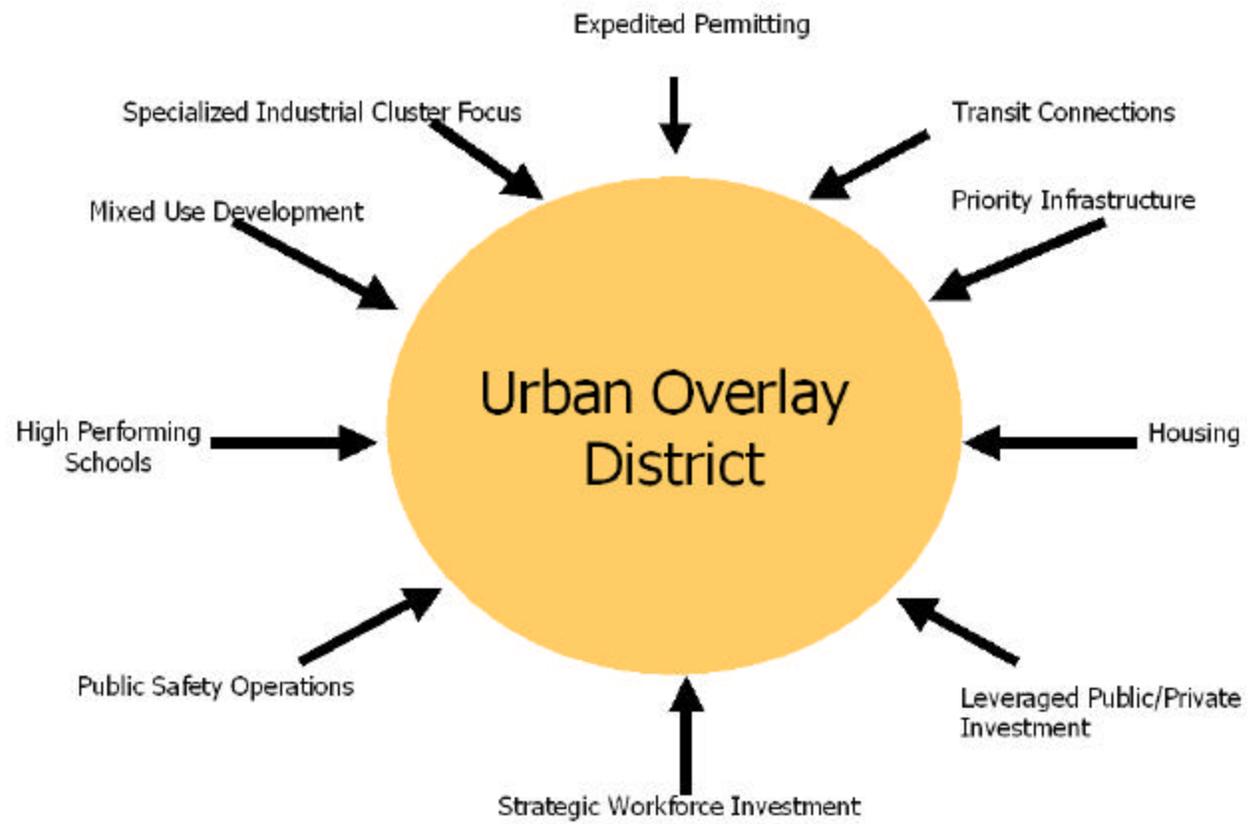
IV. Conclusion

Cities have the ability to create their own destinies. Sophisticated partners can help develop the tools and access the information required to compete successfully. 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. Implementing these “deal makers” can help reduce or alleviate many of the barriers that firms face when they consider locating in older urban cities. Cities can still win the competition to attract economic investment. This is already occurring in a number of the cities we studied. 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.

Appendix A

Appendix B





Appendix C

Study Design

The research was funded primarily through the generosity of NAIOP and several other partners identified earlier. Through the proposal refinement process we identified a seven-step study design that included the following:

1. *Selection of sectors (industry clusters)*
2. *Selection of cities*
3. *Interviews with real estate and business leaders in the key sectors*
4. *Interviews with municipal officials*
5. *Site tours*
6. *Focus groups*
7. *Report and Policy Recommendations*

Our principal focus was to provide new direction for local government officials and state agencies to attract business firms to inner-city communities. To do this, we asked for a “hard-nosed” appraisal of some representative urban settings by corporate real estate and industrial location specialists. We recognize the important role of developers and real estate brokers. However, without an interest by a firm in a prospective location, developers and brokers told us that they have a limited interest in any potential location. Building “on spec” is a very limited part of the commercial real estate sector at the moment, and is likely to remain so. Consequently, we spent a considerable amount of time with individuals who actually participate in evaluating sites for business activity.

To strengthen our link to key policy officials in the state administration, we met several times with Barbara Berke, director of the Massachusetts Department of Business and Technology, and with senior staff at the Office of Commonwealth Development to brief them on the research. We received quick and very positive endorsements of the effort from these administration officials. As a consequence, the study provides an immediate and practical use to the Governor and his development team in shaping economic development policies.

1. *Selection of sectors*

We have identified location factors that are important to key sectors in the Massachusetts economy. These “clusters” were adapted from the state’s economic strategy, “*Toward a New Prosperity.*” They include:

- A. Health care/life sciences,
- B. Biotechnology,
- C. Information technology,
- D. Financial services,
- E. Traditional manufacturing,
- F. Travel and tourism

With the guidance of the NAIOP steering committee, these industries became a focus of our research.² Our goal was to examine the feasibility of attracting new development in these industries to urban centers.

2. Selection of cities

As the state's largest city, Boston is important to economic development in all of the target industries. We chose four other cities (Map 1) – Chelsea, Holyoke, Lawrence, and New Bedford – based on geographical distribution across the state. We confirmed that, on key indicators such as poverty and race, municipal finance, and housing affordability, these cities are among the most significantly stressed.

3. Interviews with real estate and business leaders

To understand why urban sites are often overlooked for new development, we interviewed over 50 business leaders and commercial real estate professionals to identify factors important to their location decision-making process. We especially focused on firms that had an existing or recently established urban presence to determine what factors contributed to the decision to locate, expand, and remain in the cities we chose.

4. Interviews with municipal officials

We met with the chief elected/executive official or in some cases his designee in each of the cities to encourage their participation in this project. We asked for a top-level staff person to be assigned to prepare site visits and to work with us in developing background materials on the city and its development objectives and concerns. We emphasized that we were not economic development “cheerleaders” for the city, nor were we real estate brokers. Further, our research was funded by the commercial real estate industry, not by the state or city governments. Primarily, our role was, in fact, to identify “deal breakers” in urban development and to identify potential strategies for the public and private sector to “fix” some of the concerns identified by the industry real estate and location specialists.

² We have substituted biotechnology for the “knowledge creation” cluster for two reasons. Although the biotech sector is technically part of the health care/life sciences cluster, it has received special attention in recent policy proposals and has a highly developed trade association. The health care, knowledge creation, information technology and financial services clusters were identified as key parts of the export sector in Prof. Michael Porter's earlier study of the “Competitive Advantage of Massachusetts.” An earlier state economic strategy entitled “*Choosing to Compete*” included traditional manufacturing and travel and tourism as components of the Massachusetts export economy. “*Toward a New Prosperity*” adopted this selection and used it to update the state's economic strategy.

5. *Site tours*

After meeting with the mayor or city manager and key municipal officials, we toured each of the five cities during July and August 2003. We asked each city to show us a variety of sites that had development potential and to provide background material on each. The cities identified specific sites based on their location, current marketability, and the city's own development priorities. With the help of the city officials, we chose one or two sites in each community to carry forward into the analysis. These were then reviewed by the Northeastern team, the NAIOP steering committee, representatives of the Romney administration, and city officials, and background materials on each site were prepared for the focus group.

6. *Focus groups*

With NAIOP's assistance, a team of development professionals participated in a focus group to analyze the sites to determine strengths and weaknesses and necessary "fixes" to enhance the site's commercial viability.

7. *Report and Policy Recommendations*

The summary of our findings and the recommendations that are made to the various sectors have been aggressively vetted by the research team with the NAIOP steering committee. We also shared our findings with state and local officials. This has led to a realistic and actionable list of proposals that can be accomplished in the near term through a concerted effort of all of the sectors that helped shape the outcomes of the research.

Appendix D

Project Steering Committee

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