



NYU

**SCHOOL OF
PROFESSIONAL STUDIES**

The Case for Inclusive Prosperity

RICHARD FLORIDA AND STEVEN PEDIGO

The NYUSPS Schack Institute of Real Estate Urban Lab develops new understanding of the economic and real estate trends that are shaping our cities.

2017

SCHACK INSTITUTE OF REAL ESTATE | NYUSPS URBAN LAB

The Case for Inclusive Prosperity |

It's time to put inclusive prosperity at the very top of America's agenda. Now more than ever, solving today's urban divides requires a broader, more encompassing strategy that includes affordable housing, better jobs, and innovation that enables all residents and neighborhoods to share in the benefits of the urban revival. For too long, economic development and equity have been seen as separate entities. Inclusive prosperity seeks to shift the narrative of urban development away from one that views equity and growth as mutually exclusive toward one that recognizes the central role of equity in economic progress.

The past decade or so has seen the rise of a disturbing “winner-take-all urbanism” in which a limited set of cities and metro areas garner a disproportionate share of the wealth. In recent years, this has led to a narrow form of exclusive prosperity, where economic and social benefits flow to a small number of locations and advantaged residents. From 2010 to 2015, just 11 of the nation's 100 largest metros generated inclusive prosperity, where economic growth translated not only into more jobs, but also into higher wages, lower poverty, and less inequality.

As superstar cities like New York, Los Angeles, and London and knowledge hubs like San Francisco, Seattle, and Washington, D.C. have attracted businesses, high-tech startups, and affluent, educated residents back to their urban cores, housing prices have skyrocketed, neighborhoods have become increasingly unaffordable, and the gap between the rich and poor has widened. Today's cities have become divided into small areas of concentrated advantage surrounded by much larger swathes of disadvantage, with middle class residents increasingly being driven out of city centers. Across the nation, these divides are most pronounced in bigger, denser, more innovative metros. Despite rising inequality, large, diverse metros still afford the best opportunities for upward mobility among less advantaged groups, making them ideal locations for an inclusive prosperity strategy.

As the federal government retreats from urban development and turns its priorities away from cities, the onus of inclusive development has transferred to cities and urban areas themselves. With gaping cutbacks in federal spending for housing assistance, affordable housing, job training, healthcare services, education, the environment, and more, local governments, non-profit organizations, and philanthropic foundations are having to step in to fill these gaps.

But, urban areas are home to another set of large, resourceful, and economically successful institutions known as “anchor institutions” that must help out as well. As some of the main

drivers and primary beneficiaries of the recent urban revival, anchor institutions are often the largest employers in their communities. While typical examples of anchor institutions include large universities, hospitals, and medical centers—so-called “meds and eds”—that quite literally anchor urban centers, other powerful anchors, including large, successful high-tech companies and real estate developers, have tremendous capacity and resources to wield enormous influence on today’s cities.

One class of potent anchors is the tech companies that have returned en masse to downtown urban areas. Today, five of the ten most valuable companies on the Fortune 500—Apple, Amazon, Google, Microsoft, and Facebook—are high-tech institutions. At least two of them, Amazon and Google, are a massive presence in the urban core. Amazon is the largest private tenant in downtown Seattle, with a campus that spans more than 8.5 million square feet and employs more than 25,000 workers, most of whom are highly paid engineers, managers, and programmers. While Google maintains its large suburban office complex—the so-called “Googleplex” in suburban Silicon Valley—it also has a major presence in New York City, where it houses more than 3,000 employees in its renovated Port Authority building in Chelsea. The company has also proposed an estimated 870,000-square-foot tech complex in central London, designed by young “starchitect” Bjarke Ingels, which will house another 4,000 employees. More recently, Google has started negotiations with the San Jose City Council to construct a massive tech campus near the city’s Diridon train station, which would include six to eight million square feet of office and retail space, attract around 20,000 employees, and transform the station into a major transit hub.

Outside of the Fortune 500’s top ten, many prominent tech companies have helped to transform downtown urban communities. Tony Hsieh’s controversial Downtown Project brought Zappos’ headquarters from the suburbs to downtown Las Vegas and has sought to create a largely DIY district of restaurants, bars, shops, and residential developments in the city’s East Fremont area. Meanwhile, Dan Gilbert has brought the headquarters of his companies, Quicken Loans and Rock Ventures, to downtown Detroit, helping to spur a broader revival of the city’s downtown core. Many other tech companies are rumored to be launching even larger districts in urban areas.

Spurred on by return of tech companies to downtown neighborhoods, more than half of venture capital investment in the U.S. is located in urban ZIP codes. San Francisco, for instance, attracts nearly two times as much venture capital investment as Silicon Valley, while New York and London—along with smaller cities like Paris, Toronto, and Boston—have emerged as start-up hubs. As some of the fastest-growing and most valuable institutions in the world, these companies have the resources to help shape inclusive prosperity in cities and urban areas.

Another large-scale anchor institution with enormous influence in cities is real estate companies. To take advantage of the urban revival, major real estate developers are increasingly building entire neighborhoods or districts as opposed to single developments. Perhaps the largest and most well-known example is the 28-acre Hudson Yards development in New York City, which transformed a working rail yard into 18 million square feet of commercial and residential space featuring three parks, 4,000 residences, and more than 100 shops. Other examples include Industry City in Brooklyn's Sunset Park—home to the Time Inc. offices, a 40,000-square-foot food court, and the official practice courts for the Brooklyn Nets—or the Newport community in Jersey City, which spans 1.5 miles along the Hudson Riverfront and includes residential, office, hospitality, and retail development space.

If done right, these developments can become spaces for community engagement, where residents of all backgrounds can interact and connect with one another. Done wrong, developments become little more than walled-off islands of affluence and innovation, disconnected from their surrounding neighborhoods and cities. These “cities within cities” only serve to amplify segregation and inequality in urban communities.

Indeed, the ongoing urban revival is spurring a potent backlash against high-tech companies and real estate developers in a number of cities. In 2013, Bill de Blasio was elected mayor of New York after his campaign promised to curb the city's growing inequality. This situation is closely resembled in San Francisco, which has seen protests over tech companies and a narrowly defeated proposal to ban high-tech development from its downtown neighborhoods, and in L.A., where a ballot measure aimed to put a moratorium on luxury development.

In the midst of this backlash, a growing number of cities have turned to affordable housing and inclusionary zoning as a way to make communities more accessible for low- and moderate-income families.

But, solving today's urban crisis requires a strategy that goes beyond inclusionary zoning and affordable housing to include jobs, innovation, and broadly shared, inclusive economic prosperity. Indeed, there are four key pillars that anchors can and must adopt in the quest for inclusive prosperity in cities and urban areas.

Require Affordable Housing |

The first pillar of inclusive prosperity—and the one most often highlighted by modern development efforts—is affordable housing. The urban revival has hit hardest at poor residents in expensive cities like New York, Los Angeles, and San Francisco. From 2006 to 2014, the share of income spent on rent among the lowest-income households in the U.S. increased from 56 percent to 63 percent. During this time, nearly three-quarters of low-income renters devoted more than half their incomes to rent. On average, service workers earn just \$14,000 a year after accounting for housing costs compared to more than \$70,000 left over for the advantaged knowledge, professional, and creative workers.

In New York City, Mayor Bill de Blasio has made affordable housing a focus of his administration, pledging to build and preserve 200,000 housing units over the next 10 years. Similarly, Seattle’s Housing Affordability and Livability Agenda (HALA) aims to build 20,000 affordable units for low- and moderate- income residents in the coming decade as part of a larger equity strategy.

In the wake of rising housing prices and mounting pressure from community members, anchors must provide more affordable housing for local residents—including workforce housing, which allows low-paid service and blue-collar workers to live near their jobs. This approach must go beyond simply adding affordable units to luxury housing. Rather, anchors must develop a comprehensive strategy that considers the needs of low- and moderate-income residents across neighborhoods, offering them increased access to economic opportunities.

Universities like NYU and Stanford, for instance, have long provided assisted housing to their faculty, either by constructing it themselves or providing mortgage assistance and rental supplements. In partnership with Johns Hopkins University, the East Baltimore Development Initiative has constructed housing for lower income families and seniors, as well as graduate student housing in Eager Park. The Weinland Park Collaborative in Columbus, Ohio has also enlisted the help of local anchor institutions to offer \$3,000 in down-payment assistance to Ohio State University employees who purchased homes in the University District.

In West Philadelphia, anchors like the University of Pennsylvania, Drexel University, and the University City Science Center have undertaken substantial efforts to create affordable housing for neighborhood residents and university workers, as well as faculty and staff, while investing in other community assets. The University of Pennsylvania has developed a housing assistance program that offers employees forgivable loans and mortgage financing

options with discounted closing costs. Together, the West Philadelphia Initiatives (WPI) have also focused on supporting local businesses, engaging in commercial development, and investing in public education by launching a new neighborhood-based public K-8 school. These efforts appear to have significantly improved the West Philadelphia neighborhood from 1990 to 2010 without spurring gentrification, according to a recent study.

High-tech companies and real estate developers should also be required to make affordable and workforce housing central planks of their urban projects. In Seattle, Amazon has offered to donate 47,000 square feet of office space to house more than 200 members of the city's homeless population each night.

But, with their size, resources and capabilities, leading tech companies in cities around the country have the resources, to do much more.

Make Good, Family-Supporting Service Jobs the Centerpiece of Development |

The second pillar of inclusive prosperity is to create additional, more sustainable jobs for local residents so that anchors can invest in their own creative talent—and the future of their communities.

Today, about a third of Americans are employed in high-paying knowledge, professional, and creative jobs, while another 20 percent perform family-supporting, blue collar work in manufacturing, construction, and transportation. The rest of the workforce—around 45 percent, or more than 60 million American workers—is trapped in low-wage, low-skill jobs in fields like food service, home healthcare, and office work, which cannot support a family. These jobs are typically filled by female, minority workers earning between \$20,000 and \$30,000 dollars a year, requiring them to work multiple jobs to make ends meet. Just as America transformed its low-paying manufacturing jobs into family-supporting work in the aftermath of the New Deal, it must also transform its modern-day service jobs into sustainable professions.

Tech companies, real estate developers, and eds and meds can play a major role in converting service jobs into supportive careers. High-tech companies like Amazon and Google, as well as the high-tech campuses of Apple, Facebook, and Microsoft, are already some of the largest employers in their communities. Tech companies are also world leaders when it comes to retaining and motivating knowledge workers, not only through their high salaries, but also by offering perks like food, recreational amenities, spaces to relax and convene, and on-site daycare and healthcare.

As a point of departure, these companies employ large numbers of low-wage service workers and contract out to thousands upon thousands more. This presents an opportunity for tech companies to focus on upgrading their own direct service jobs. The SAS Institute in North Carolina's Research Triangle has long internalized service jobs like cafeteria work and grounds-keeping, upgrading these jobs into higher-paying, family-supporting careers. By nurturing relationships between its developers, customers, creative workers, and support staff, SAS has managed to limit its turnover rate to between 2 and 5 percent.

The most economically successful retail and hospitality companies—companies like Trader Joes, Zara, Whole Foods, and the Four Seasons—upgrade service jobs as part of an overall strategy to deliver higher quality service and greater productivity. Zeynep Ton of MIT's Sloan School of Management provides detailed evidence of how companies like

these profit from what she calls a “good jobs strategy.” This approach involves investing in lower-skill workers and offering them higher wages as a mechanism to achieve better customer service, reduce costly employee turnover, cultivate higher levels of engagement and innovation, and generate higher rates of productivity and profit. For cities and their anchor institutions, this is a triple win: A good jobs strategy results in better wages for workers; better service delivery and improved productivity and profit for companies, and greater economic efficiency and more engaging service capabilities for cities.

High-tech and other anchors can also partner with and add resources to community initiatives that are already in place, such as the Coalition for Queens, which teaches coding and tech skills to prepare low-income residents for software engineering jobs, or DreamYard, which has connected its own preparatory high school to an affordable housing developer in an effort to create a community arts center in the Bronx.

Tenant selection is yet another powerful lever that anchors like real estate developers, med and eds, and large tech companies can use to help upgrade low-wage jobs. Just as these anchors often scour for interesting retail businesses and office tenants for their developments, they should also select tenants that reflect a good jobs strategy. By choosing tenants who align with their mission of inclusive prosperity and providing them with access to nearby resources, developers can empower workers to improve their productivity and quality of life.

Focus on Inclusive Strategies for Innovation, Entrepreneurship, and Creativity |

The third pillar of inclusive prosperity involves shifting innovation, entrepreneurship, and creativity from winner-take-all pursuits to broader community benefits.

Innovation and entrepreneurship are key drivers of the modern knowledge economy, but, left to their own devices, they can compound urban divides, leading to higher housing prices and greater segregation between rich and poor residents. This is particularly the case in suburban tech complexes like Silicon Valley, and even more so in urban tech districts, where female and minority residents are visibly absent from high-tech entrepreneurial ecosystems.

While many people tend to think of innovation as stemming from highly-educated startup entrepreneurs or university-trained engineers and computer scientists, innovation is increasingly born from local creativity. Although nine in ten people with a college degree are members of the creative class, less than 60 percent of the creative class did not complete college. In fact, many of America's greatest musical and artistic innovators, including Louis Armstrong, John Coltrane, Andy Warhol, Jimi Hendrix, and Jay Z, came from disadvantaged backgrounds. Indeed, a great deal of the impetus for innovation and creativity in the U.S. has come from the bottom up.

This presents a huge opportunity for university and medical centers, tech companies, and real estate anchors to make innovation and entrepreneurship more inclusive for all residents. These efforts begin by working with disadvantaged communities to bolster entrepreneurship and create companies with a deliberate mission to meet local needs. Already, cities like Pittsburgh and Washington D.C. are developing inclusive innovation strategies to provide low-income and disadvantaged residents with technical skills, job training programs, and entrepreneurial know-how.

In this way, anchor institutions can undertake their own initiatives to upgrade service jobs. In Rockford, Illinois, the leading peer-to-peer e-commerce platform Etsy created a training program that teaches low-income residents to establish online businesses and earn a supplemental income. In Washington, D.C., a new incubator at Howard University is constructing an 8,000-square-foot space to support minority entrepreneurs and investors from underserved communities. In New York City's East Harlem, a social enterprise called Hot Bread Kitchen provides low-income and minority women with a six-month paid job training program in which participants refine their culinary skills. In Boston, the non-profit

food business incubator CommonWealth Kitchen provides both shared kitchens and business assistance to help local entrepreneurs build self-sustaining, profitable food companies. And, in San Francisco’s Mission District, the incubator La Cocina offers commercial kitchen space and technical assistance to low-income women and immigrant entrepreneurs.

Another major avenue for inclusion and economic development is creativity. In order to engage community residents, development efforts can and should include creative incubators and “maker spaces,” where people can learn business skills that allow them to commercialize their efforts. In San Francisco, SFMade works with local manufacturing businesses to engage directly with entrepreneurs and startups, offering specialized education and connecting companies with local hiring resources and job training programs. In New York, projects like Paths to Pier 42—an annual pop-up park along the city’s East River Waterfront—and “Boogie Down Booth”—a pop-up solar-powered bus stop in the Bronx—have developed community spaces while commissioning local artists and designers and employing local merchants. In Toronto, the Daniels Corporation, a real estate development company, has created a “live-work-play-learn-create” neighborhood that includes a creative incubator space, along with tools, resources, and training for building sustainable businesses.

Given the role of innovation, creativity, and entrepreneurship in generating new startup companies and economic growth, anchors must prioritize these characteristics in their steps toward inclusive prosperity. On the one hand, universities can expand their existing entrepreneurial, social, and civic innovation programs to include community groups and neighborhood residents. On the other, tech companies can harness their incredible resources and talent to scale community-oriented innovation and entrepreneurship efforts beyond anything that has been done to date.

Design and Build Inclusive Public Spaces |

The fourth pillar of inclusive prosperity is the design and building of inclusive space, especially public space that benefits the entire community. Not only is public space a distinctive feature that sets cities apart from gated suburbs—it's also the space where a diverse mix of people across socioeconomic, racial, ethnic, and age categories come together. Many cities have created new public spaces by improving their parks or repurposing their waterfronts as part of larger reclamation efforts. In Toronto, the Daniels Corporation revitalized the city's 69-acre Regent Park, formerly the site of distressed public housing, to include both commercial spaces and community facilities. The company also partnered with Artscape to develop an arts and culture center that incubates and convenes local artists and community members. Across Greater Miami, local officials have also traded density in exchange for developers' commitments to build new public spaces. In Miami Beach, developers were required to create the South Pointe Park, a beachfront park featuring a playground, green spaces, and a fishing pier. Miami's rapidly expanding "Baywalk," a lengthy boardwalk along the downtown waterfront, was also constructed as a public amenity.

But, even well-intentioned public spaces can generate unintended consequences in the wake of today's uneven, and oftentimes unpredictable, urban revival. Perhaps the classic example is New York's High Line Park, which was originally built as a neighborhood amenity, but became a magnet for high-end development. As a former industrial site in the middle of Manhattan, the High Line would likely have spurred development under any circumstance. "We were from the community. We wanted to do it for the neighborhood," Robert Hammond, the executive director of Friends of the High Line, told CityLab in February. Today, real estate developers and tech companies looking to take advantage of public space must include community benefits in their broader development strategies. Even a small fraction of the tremendous profits created by locating next to public spaces and assets would make a huge difference to local communities and residents. Indeed, the leaders of the High Line are now pushing to make their project a model for more inclusive development. In recent years, Friends of the High Line has established mentorship programs and made an effort to engage local businesses—including hospitality and retail—to employ neighborhood residents. For the past five years, the High Line has also provided job opportunities in cultural production, horticulture, and education to more than 100 local teens.

High-tech companies that have already created public spaces for their employees should also consider opening these spaces to the local community. Public spaces like the Amazon

biospheres in Seattle can provide employees and residents with a location to convene and create. Private sectors can also make meaningful contributions to special improvement districts, helping to promote community dialogue and foster innovation. The biospheres' community conservation project, for instance, represents the dual function of public space, serving as both a workspace and a home for more than 300 endangered plant species.

While anchor institutions like universities, medical centers, real estate developers, and high-tech companies have historically made an effort to bolster economic growth and spur innovation in their surrounding communities, they have not done enough to spread these benefits to local residents who need them the most. Even well-intentioned efforts have essentially worked to increase housing prices and exacerbate the gap between advantaged and less advantaged residents. As some of the largest and most fortunate actors in our economy, anchor institutions—particularly high-tech companies and real estate developers—must rise to meet the growing challenges of segregation and inequality.

For this reason, it is essential that anchor institutions become vehicles for inclusive prosperity. Indeed, anchor institutions have a lot to add—and gain—from using their considerable resources to build inclusive and equitable communities. Not only will more inclusive development help these institutions avoid a burgeoning local backlash it will also help to create truly diverse and creative communities that tap into the capabilities of all. This strategy becomes most powerful when public and private anchors work together to scale their efforts to meet the broader needs of their community.

By organizing their resources and leveraging one another's strengths, large anchor institutions can help turn our biggest, most innovative, and most productive cities into inclusive and prosperous places for everyone.

Author Bio |

RICHARD FLORIDA is University Professor and Director of Cities at the Martin Prosperity Institute at the University of Toronto, Distinguished Fellow at New York University's Schack Institute of Real Estate, and Visiting Fellow at Florida International University. He serves as a senior editor for The Atlantic, where he co-founded and serves as Editor-at-Large for CityLab. He is the founder of the Creative Class Group.

STEVEN PEDIGO is the Director of the NYU Schack Institute of Real Estate Urban Lab and a Clinical Assistant Professor for Economic Development at the NYU School of Professional Studies. He is also the Director of Research for the Creative Class Group.

Aria Bendix contributed writing and editing to this report.

NYU SPS SCHACK INSTITUTE OF REAL ESTATE

The NYU School of Professional Studies Schack Institute of Real Estate was founded in 1967 at the initiative of prominent members of the New York City real estate community, who encouraged NYU to establish an academic center that would provide a world-class education for industry professionals. Nearly 50 years later, the Schack Institute is at the forefront of real estate education and is recognized globally as one of the world's leading centers of real estate research and pedagogy. Across the Institute's graduate degree programs—notably the MS in Real Estate, the MS in Construction Management, and the MS in Real Estate Development—as well as a rapidly expanding undergraduate degree program, enrollment has grown to nearly 1,000 full- and part-time students from across the United States and nearly 50 other countries. In addition to its flagship degree programs, thousands of working professionals enroll in the Schack Institute's executive education, diploma, and career advancement programs each year.

An anchor of real estate academia's engagement with industry, the Institute is home to the REIT Center, the Center for the Sustainable Built Environment (SBE), and the newly established Urban Lab. In addition, the Institute hosts national industry events, including annual conferences on real estate capital markets and the REIT sector. Under the direction of the Schack Institute's faculty members, ongoing applied research at the Institute spans an exceptional range of issues in real estate development and investment, urban economics, and market structure and regulation. For more information about the NYUSPS Schack Institute of Real Estate, visit [**sps.nyu.edu/schack**](https://sps.nyu.edu/schack).

NYU SCHOOL OF PROFESSIONAL STUDIES

Established in 1934, the NYU School of Professional Studies (sps.nyu.edu) is one of NYU's several degree-granting schools and colleges, each with a unique academic profile. The reputation of the School of Professional Studies arises from its place as the NYU home for study and applied research related to key knowledge-based industries where the New York region leads globally. This is manifest in the School's diverse graduate, undergraduate, and Professional Pathways programs.

More than 100 distinguished full-time faculty members collaborate with an exceptional cadre of practitioner/adjunct faculty members and lecturers to create vibrant professional and academic networks that annually attract nearly 5,000 degree-seeking students from around the globe. The School's community is enriched by more than 31,000 degree-holding alumni worldwide, many of whom serve as mentors, guest speakers, and advisory board members.

Visit us at sps.nyu.edu/urbanlab