

## Superstar cities defy downturn

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Sunday, March 9, 2008

As the real estate market continues to behave like a folded paper "cootie catcher" with radically divergent fortunes depending on which flap you open, I've been scratching my head that places like San Francisco, Albany and Sausalito are not following the downward trend with the rest of the dirt patches we call home.

Oh, I've heard the explanations. Local boosters are eager to point out that no matter what happens to the rest of the planet, some cities are "special," anointed by a magic fairy dust of desirability and limited supply.

Social critics grimly observe that as the rich get richer (and the rest of us don't), the places where the rich want to live naturally have more real estate resiliency. Bubbleologists predict that these cities are in a bubble, and it's just a matter of time - the higher things rise, the harder they'll fall - before the hot air seeps out of the most inflated markets.

Each of these divergent world views has its truths. Yet it wasn't till I read "Who's Your City" - the new book by business school professor, speaker and best-selling author Richard Florida, that I grasped the global implications of what's going on in the Bay Area real estate market.

Back in 2002, Florida's enormously influential first book, "The Rise of the Creative Class," laid the sociological foundation for an idea many of us in the Bay Area had already understood intuitively: that creative people like artists, scientists and entrepreneurs - not big corporations, government offices, or generic infrastructure - fuel economic development.

But Florida's new book, an odd hybrid of number-crunching meta-theory and self-help manual, has taken these ideas one step further by divining the economic geography of the future. He also inadvertently explains why bearish prognosticators like me keep turning up wrong.

### Location is everything

Florida argues (with ample hard evidence from myriad sources) that despite all the predictions about virtual offices and globalization rendering geography irrelevant, where you live still largely determines your destiny. Although theoretically we *should* be able to work just as efficiently from, as he puts it, "a ski chalet in Aspen or a house in Provence as an office in Chicago," the facts suggest that the rise of a handful of global mega-regions, centers of both creative innovation and economic productivity, has made place more central to people's lives than ever.

"The world is becoming more global, but it's also becoming more local," he told me from his Toronto offices. These mega-regions, Florida contends, are not only siphoning off the productivity and talent from



other nearby regions but from around the world. What he calls global sorting makes the productive output between the superstar cities and the rest of the world more extreme than ever.

These superstar cities include obvious choices such as Washington, New York and Boston as well as London, Tokyo, Seoul and Shanghai. Not surprisingly, the Bay Area fares quite well as a mega-region, too.

"The Bay Area is one of the top-performing centers" in the United States, Florida said. "Despite it being extraordinarily costly, the Bay Area still offered enough economic incentives, innovation and amenities to offset the expense of living there." (Of course, Florida doesn't mean San Francisco's high housing costs are offset for everyone, but within the quantitative measurements he has devised, the Bay Area still ranks high.)

Why is the Bay Area so special? As the book notes, not only is it a center of innovation (a measurement based on patent filings), but it boasts by far the most "star scientists" worldwide. What is perhaps more important, the Bay Area has a reputation that just doesn't stop.

"It was really interesting," says Florida. "Before we created our own rankings, I looked at every best-place ranking that's ever been done and the Bay Area had the most appearances. Despite the fact that it struggles with housing affordability - I think it has a strong economic future."

Florida's own rankings, based on measurable factors such as affordability, health, culture, safety, economic opportunity and education, showed similar findings. The region scores high on his much derided and adored "gay index" - a measurement from his earlier work based on the association between high gay populations and high economic vitality. In his new book, Florida incorporates the "gay effect" in his best-places rankings as well.

San Francisco made Florida's Top Five cities lists for all recent college grads, gay and lesbian midcareer professionals, all retirees as well as all empty nesters. San Jose ended up on the Top Five list for families with children and in the small city categories. Santa Rosa (meaning the whole metropolitan area) ended up on best lists for gay retirees, singles and gay and lesbian singles, all empty nesters and families with children.

### **Resilient superstar cities**

So what does this book tell us about our storied real estate market?

"I recently spoke to Joe Gyourko (an economist at Wharton School of Business), probably the premier real estate economist in the country for a couple of hours about this," Florida said. "It's not that superstar cities don't go up and down, it's that they are more resilient than other regions."

So if some of us are holding our breaths for reality to return to the land of surreality, Florida recommends a taking a deep breath. "I believe this clustering of people that make cities grow is a permanent demographic shift. That means that in the long term, there's going to be more stratification between these innovative economic centers and everywhere else. Unfortunately, that will be reflected in the real estate prices."

Even within the mega-regions, he says, not all real estate is created equal: "If I had to give advice I would

say to buy single-family homes closer to the core, not in the outlying areas where the more affordable housing is. The really knowledge-driven people have to be more effective, so they have to use their time more efficiently, so center locations have become more valuable. Even in places like Washington, D.C., where the suburbs have been hit so hard (by the real estate downturn), the inner-city core has held up."

### Place is a life choice

Does this mean that we should all flock to the bull's-eye of the nearest mega-region and live in a shack? Not at all. Florida says the book is a call to think about place as one of life's big choices. (His Web site, *Who's Your City* ([www.creativeclass.com/whos\\_your\\_city](http://www.creativeclass.com/whos_your_city)), even offers dandy tools for thinking through the issue.) "I don't advocate any one place, but I just don't want people to make a snap judgment. Take your time, do your research. And make your own decision."

In the end, it may seem that Florida, with his finger on the pulse of the globe, is extolling the virtues of this brave, geographically stratified new world.

Although real estate professionals and businessmen do love his theories, he warns that these demographic trends have created ethical problems that we have to address - primarily through new social policy like better wages for service workers and more funds for small entrepreneurship. But first on the agenda is seeing the problems for what they are.

"We need to admit to the fact that along with making our communities more innovative and productive, we are generating enormous social and geographic inequality," he said.

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This article appeared on page **F - 1** of the San Francisco Chronicle

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