

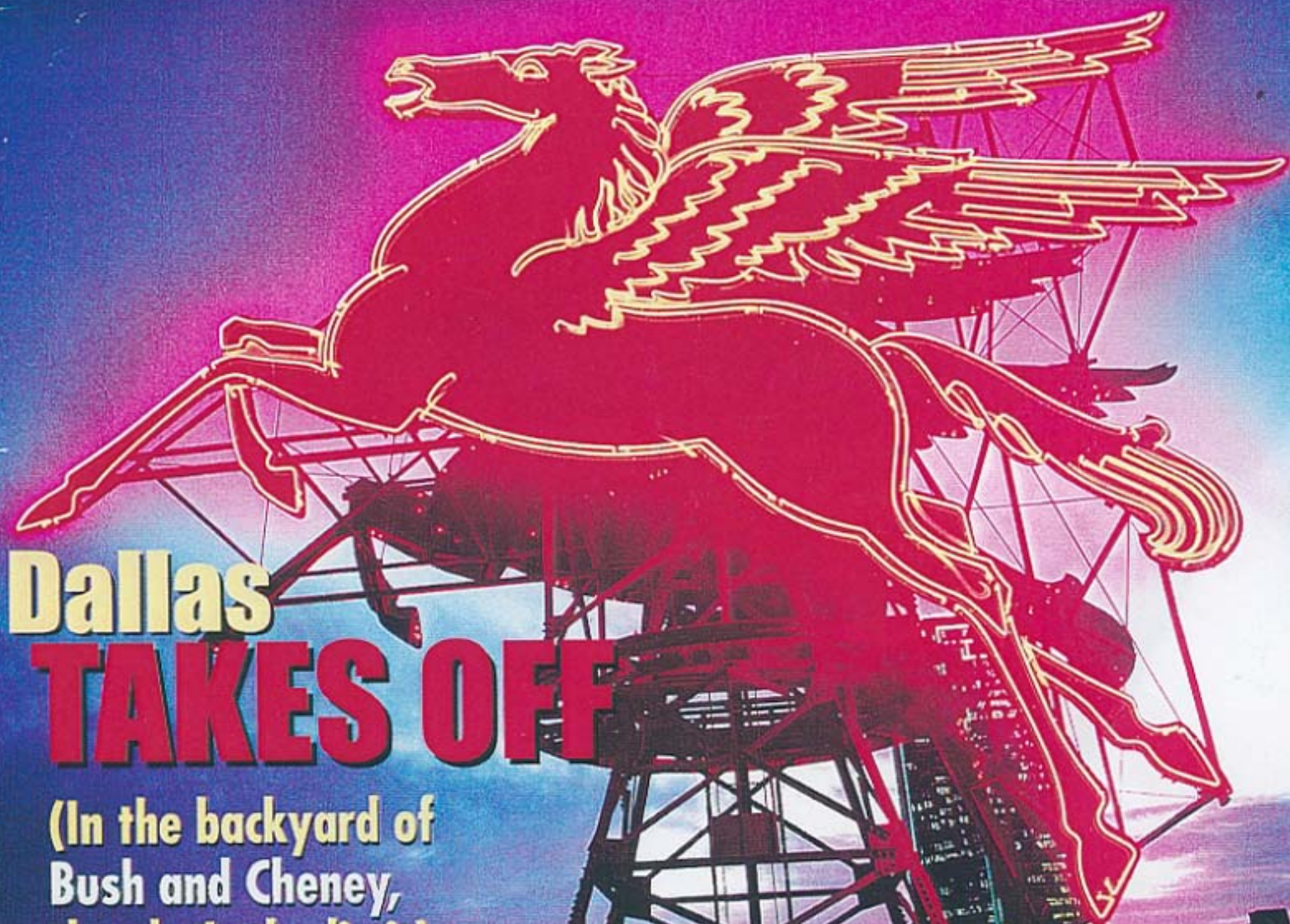
Close-up.  
THE REAL USA

JULIE TAYLOR • TONY BLAIR • IRA BLOOMER • BOB DOLAN • ROGER STUBBINS

# THE AMERICAN ENTERPRISE

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## Dallas TAKES OFF

(In the backyard of  
Bush and Cheney,  
the sky's the limit)

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# Capital <sup>of</sup> capitalism

## The making of a great modern economy

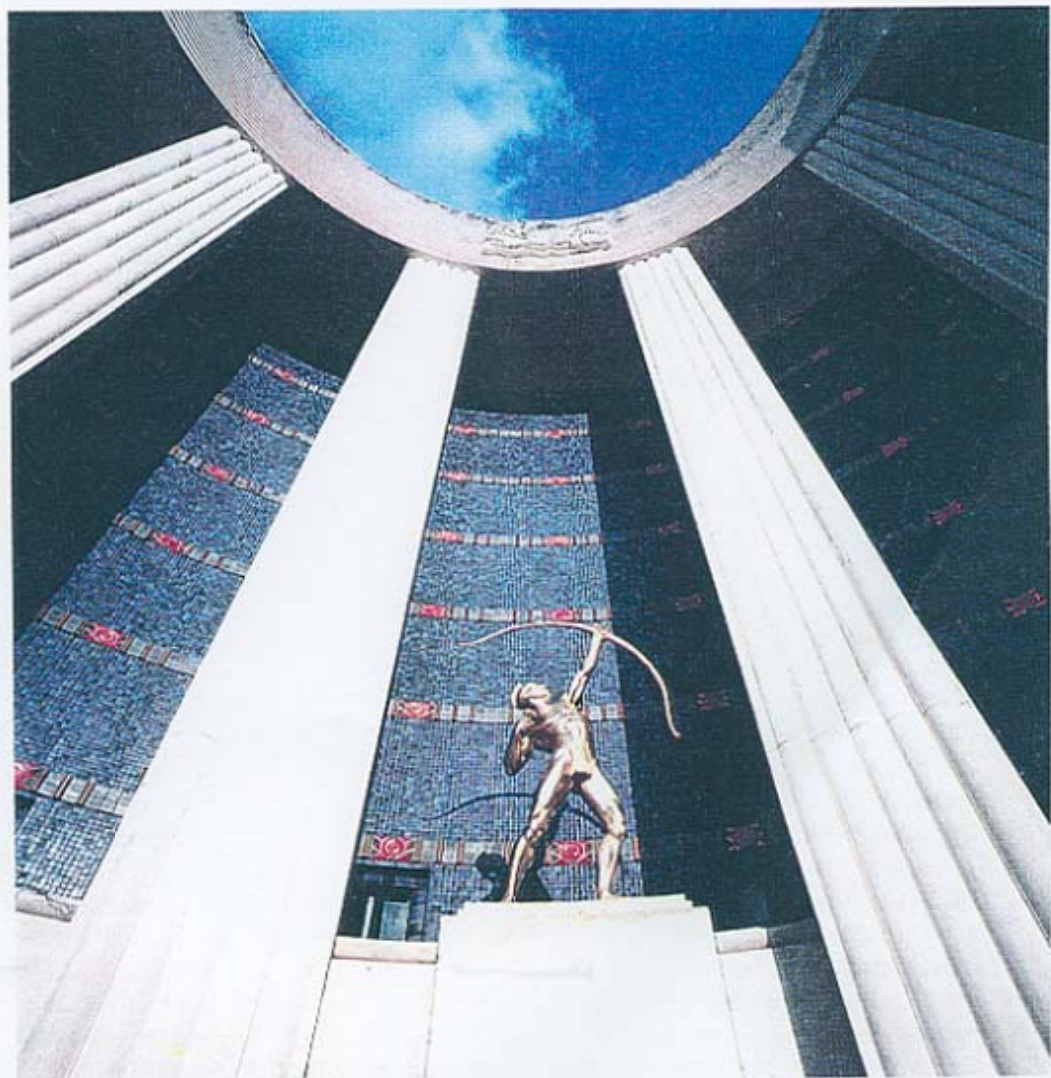
With a population now larger than that of 30 entire states, the Dallas area enters the twenty-first century experiencing some of the highest rates of economic expansion in the nation. In fact, high-technology industry is now growing far faster in the Dallas-Fort Worth metroplex than it is even in Silicon Valley. And this growth is happening on an already massive base: The local high-tech sector is roughly three times as big as in much-ballyhooed Austin, Dell Computer's home 200 miles south. In job creation and income growth, Dallas is now one of America's stars. Indeed, it has done something hardly any other cities can claim: It has grown faster than its hinterland. Since 1980, the metro area has produced jobs almost 50 percent faster than Texas as a whole, which itself enjoys some extremely robust growth rates.

So why is Dallas so often overlooked by a media that froths over Austin or New York City's so-called Silicon Alley? In part, because Dallas lacks the accoutrements that East and West Coast media elites think are essential for information-age success—like tony universities, a liberal culture, or an attractive natural setting. Dallas is simply too prairie, too blunt and ambitious, too middle American to fit their biases of what makes a great city.

Dallas also possesses one other critical quality that few members of the media establishment identify with: a powerful, extremely aggressive business culture. At each stage of its development, the primary impetus for growth in Dallas has come not from outsiders like New York bankers or Silicon Valley venture

capitalists, but from local folks captivated by the restless, sometimes relentless entrepreneurial spirit that seems indigenous to the community.

TAE contributing writer Joel Kotkin is author of *The New Geography: How the Digital Economy Is Reshaping the American Landscape*, to be released in November.



Entrance to the Hall of State on the Texas State Fairgrounds in east Dallas.



This is not, as some outsiders imagine, a city of rubes who succeed because their locale is cheaper than other places, or because their congressmen wrangle them defense jobs through the D.C. pipeline. In truth, the Dallas area boasts a higher percentage of information-technology workers in its overall labor force than such recognized high-tech centers as greater Boston, Minneapolis, and Denver.

Dallasites, notes developer Bob Petrucello, may seem laid back, even a bit slow. But those draws are dangerously deceiving. "This is a very sophisticated place," the Brooklyn native says

## As high-tech firms have flocked to Dallas-Ft. Worth, they've forged the second-most-concentrated technopolis in the nation, behind only Silicon Valley.

while walking down a crowded street on the city's west side. "There's just this tremendous 'can do' spirit here. You are judged on your character, and capable people can have a real effect."

Tramping through the weeds not far from his Dallas home, Brady Wood puts on his best good ol' boy accent. "We were walkin' right along, huntin' for some food, when up from the ground come a bubblin' crude" the Louisiana native half-sings to the tune of the "Beverly Hillbillies." With a wry grin, his accent softening to something more sophisticated if still definitively southern, Wood points to some low posts strung with cables that are sprouting along a railbed. "Look here," he says. "Those are MCI and Sprint lines running right through." Main trunks. Enough capacity to pop any computer weenie's eyes out.

Like many developers, speculators, and assorted dreamers around Deep Ellum—the hip district east of downtown Dallas where he operates—the 32-year-old Wood has big plans. And they're linked to those high-capacity telecom lines. On eight acres surrounding the desolate plot we're walking, Wood has plans to convert a deserted metal foundry into 41,000 square feet of fashionable high-tech office space. And he has lots of company. In a broad area surrounding the city's central core, a host of developers are eyeing virtually every deserted warehouse, abandoned factory, or empty piece of ground as if they hide untapped oil pockets.

Most of these real estate players are business products of Dallas's past two decades, with no connections to older banking, agricultural, or petroleum wealth. Wood makes his living from nightclubs and restaurants. One of his prime competitors is a 40-year-old named Jeff Swaney. While working for Hewlett-Packard, Swaney befriended another techie named Mark Cuban. It was the late 1980s and, trolling for fun, Swaney and Cuban started hanging out in a funky part of town east of downtown called Deep Ellum. A "wild, crazy place" that was once a center of black clubs and businesses in the 1930s, the neighborhood was now inhabited by denizens of Dallas underground culture—artists, bikers, musicians, as well as the city's largest homeless contingent.

Attracted by the eclectic atmosphere, Swaney decided to give up the corporate life and stay in Deep Ellum. "I wasn't cut out for the computer business," he recalls over coffee. So he co-

founded Club Clearview, the first of the Deep Ellum nightclubs. By the late 1980s, Clearview was gaining fame in a surrounding bastion of edgy stores, clubs, and restaurants.

But something more than entertainment was happening in Deep Ellum. Swaney's old friend Mark Cuban approached him and his partner for help in locating 1,400 square feet for a telecommunications start-up. The key requirement was space for a basketball court, reflecting a passion that—a decade later—would result in Cuban buying the local NBA franchise, the Dallas Mavericks.

Cuban's start-up, which later became Broadcast.com, quickly evolved into the hottest internet firm in Dallas. After it went public in 1998, tales of former waitresses and guitarists making millions on the deal turned the entertainment district into a high-tech hub. Soon dozens of other Web, media, and advertising firms rushed in, taking what had been virtually worthless real estate and transforming it into million-dollar properties. Over a dozen new internet firms have relocated into the district, often from suburban locations, over the past year.

This produced mega-profits for Deep Ellum speculators like Swaney, who now leases 122,000 square feet to his old friend. Having moved a long way from their shaggy roots, these property moguls are, predictably enough, now opening art galleries, worrying about the "character" of the district, and cleaning up problem spots.

But their main obsession remains an old Dallas passion—adding zeros to deals. The new digits are accumulating thanks to the entrance of large players like Westdale Asset Management (a nationwide owner of apartment complexes that now owns about 15 percent of Deep Ellum), and former EDS boss Mort Meyerson (a longtime Ross Perot lieutenant who is now partnering with, of all people, the cut-off-jeans-wearing Jeff Swaney on a 125,000 square foot project just up the road from Brady Wood's proposed development). Space that was selling for \$5 a square foot not long ago is now going for three times that—not exactly Manhattan or San Francisco prices, but enough to give a guy like Jeff Swaney visions of moguldom. "What I am trying to do is perfect low-cost cool development," Swaney explains. "All my life I've done a lot of little stuff. Now I want to take it to the next level."

Swaney's passion for getting to the "next level" epitomizes the kind of primal drive that has powered Dallas since long before its emergence as a global city of the first rank. Because there's little else to recommend the region as a site for greatness, sheer human spirit has always been critical here. In 1949, *Fortune's* Holland McCombs described the city as a "monument to sheer determination." Its origins in the 1840s were as a small trading post on the Trinity River, a trickling snake with no navigable connection to any large body of water. This was no Manhattan Island, San Francisco Bay, or other great natural site begging to be developed.



At least the surrounding land was relatively fertile, so the trading post eventually grew into a thriving agricultural community. The cotton farmers especially did well. They were joined by French merchants arriving from New Orleans, part of the La Réunion cooperative. These skilled immigrants and other newcomers, including a sizable Jewish population, expanded the commercial backbone of the young community. A supply center for the South during the Civil War, Dallas (then a city of 2,000) was lucky to be too far off the beaten path to feel the flames of Union reconquest. Indeed, after the war, the city served as a favored destination for Confederates fleeing devastation elsewhere. The city prospered, and by the 1880s the settlement emerged as the demographic and business center of north Texas.

Early Dallas was a rough and ready town, with outlaws, bad men, and bad women—like the infamous gunfighter John B. “Doc” Holliday, the madam Belle Starr, and train robber Sam Bass. Like their Deep Ellum heirs today, these Dallasites also liked to have fun. In 1880, the city of 10,000 boasted more than 50 saloons.

But there was a more serious side to Dallas—driven by a rising, largely Protestant, and mostly dry, business elite. Real estate and other interests promoted the extension of railroads into the city, turning Dallas into the region’s primary hub. By the 1920s the city’s powerful Citizens Association was putting in a set of progressive changes, including reformed city administration, welfare, and zoning. It also waged a battle against the Ku Klux Klan. As historian Patricia Evridge Hill noted, it was perceived that “the Klan’s presence deterred growth.”

The push against the Klan was encouraged by Jews, who had long been important players at the highest levels of Dallas society. Locally Jewish owned Neiman Marcus was not just a store but a talisman of fashion, and an expression of Dallas as a city of sophistication and taste. As *Fortune* noted in the 1930s, Dallas women saw Neiman Marcus “not simply as a place where they bought dresses, but as a place where they learned about clothes.”

Later, the mantle of leadership in Dallas would fall on the Citizens Council, a more educated elite, many of whom attended schools such as Southern Methodist, Texas A&M, and the University of Texas. They fought for growth and modernization, although relatively little of that progress bubbled over to the large African-American and Latino populations. Yet the kind of racial strife that decimated other cities, north and south, for the most part skirted Dallas. Largely, because it was bad for business.

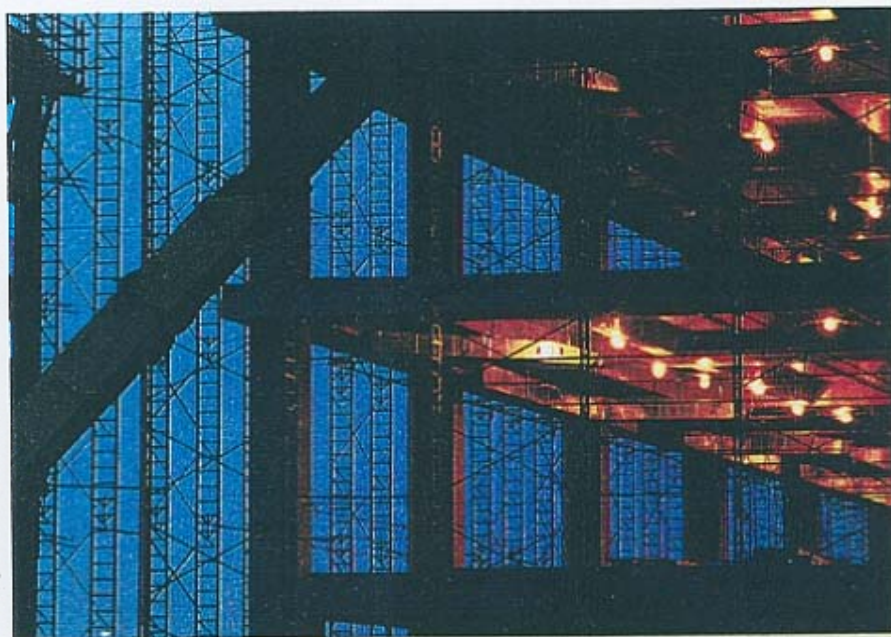
Dallas natives still recall theirs as a city of cozy deals struck between an elite set of lawyers, bankers, oilmen, and developers. In those days, people met around downtown buildings like the Kirby or ate lunch together at Neiman Marcus’s Zodiac Room to work out arrangements. “It was a community where people lived to do business,” recalls attorney Reggie Graham, whose father was one of the prime wheeler-dealers. “You would come to lunch and someone would have a good deal. It could be oil, real estate, banking. You just got the best deal you could.”

This comfortable world began to collapse in the 1980s, the

result of the drop in oil prices and the savings and loan debacle. A wide cross-section of the old elite—notably banks and some developers—disappeared as if swept away by a howling tornado. Downtown in particular was left in ruins, with vacancy rates hitting close to 30 percent. As factories and car dealerships closed, places like Deep Ellum became crime-ridden and crowded with homeless people.

“The dynamics of the city changed,” recalls developer Petrucello. “There was no real estate recession—it was a depression. The oversupply of space was ridiculous. It was like a neutron bomb; it killed the people and left the buildings standing.”

Dallas’s apocalypse turned out to be short-lived. By the late 1980s and early 1990s a new set of business leaders emerged, including national figures like Ross Perot and Mort Meyerson, Southwest Airlines founder Herb Kelleher, and scores of others,



**Entrepreneurial aggressiveness and a central location within NAFTA are Dallas strengths.**

including opportunistic newcomers such as Petrucello. At the same time, the new leadership opened its door to traditionally ignored players, like the city’s current black mayor, Ron Kirk.

But if the political face changed, the basic agenda did not. After all, government was not the business of Dallas; making money was. Growth remained the top priority and those projects that needed federal funds, such as the development of I-35, tended to get attention. Serving as the main conduit between the American industrial heartland and Mexico’s northern manufacturing centers, the building of I-35 also played to another longtime Dallas concern: shedding a detested “middle of nowhere” image.

But the main thrust was not establishing new land routes, but rather establishing pre-eminence in the new dominant transportation form: air travel. After the collapse of the city’s banking and energy sectors in the early ‘80s, the city’s elite recognized that Dallas’s future lay largely in two areas, high technology and serving as a logistics center. These were sectors



that, they reckoned correctly, would last for the long-term and be less dependent on the business cycle than the energy or property markets.

John Kasarda, director of the Kenan Institute of Private Enterprise at the University of North Carolina, describes the Dallas-Fort Worth area as a classic example of a twenty-first century "aerotropolis." Like the seaport, river and canal, train, and highway systems before them, air travel networks, particularly for cargo, are now the leading logistical factor behind urban growth. Already, 40 percent of the value of world trade

## One of America's most potent metro areas is now developing a real city in its downtown core.

goes by air, and the percentage is rising.

As shipping speed becomes more important to success in business, cities with large, well-developed air cargo systems have a unique advantage. This is particularly true with the rise of e-commerce: 70 percent of e-commerce sales depend on express delivery. "It's the blue-collar logistics part that is increasingly critical," suggests Kasarda. "The Web can't move a box."

The Dallas region's central location is critical here. It lies in the geographic heart of four critical primary trading centers: Los Angeles, New York, Toronto, and Mexico City are roughly equidistant. Low business taxes and low land costs have made warehousing and other activities cheaper than in competing commercial centers such as Atlanta, Los Angeles, Memphis, or Chicago. This locational advantage—along with other low taxes, a modest cost of living, and a generally pro-business climate—has attracted many large firms, including one of the country's largest concentrations of *Fortune* 500 headquarters.

What has really made Dallas a global hub has been the willingness of the region's leadership to invest in air facilities. The area boasts three critical airports: the massive Dallas-Fort Worth International, which ranks with Chicago as one of the nation's busiest air centers; the convenient downtown Love Field; and the Perot-financed Alliance Airport, which is the world's largest strictly industrial airport.

These hubs have done for Dallas what in the past rivers, oceans, and lakes accomplished for other cities. The Dallas aerotropolis has sparked a vast expansion of industrial and warehouse space, like the new million-square-foot facility being built for Mattel. This has helped propel an explosion in blue-collar jobs: Since the depression of the early 1980s, the region has added nearly 300,000 distribution and manufacturing positions. Dallas's emergence as an aerotropolis has had many other spill-over effects as well. The city's trade facilities—such as Market Center, the world's largest merchandise mart—are major economic drivers; the Center attracted buyers and vendors in 1999 from all 50 states and 84 countries, who purchased 300,000 airline tickets and filled 720,000 hotel rooms while conducting \$7.5 billion in wholesale sales.

But the true heart of the twenty-first century Dallas economy lies not so much in trade as in the intersection of the aerotropolis with a bracing high-technology economy.

High-tech, more than any industry, is airport-sensitive. Most high-tech goods are shipped by air, and high-tech workers themselves are more likely than a normal workforce to travel by air—60 to 400 percent likelier, according to UNC's Kasarda.

Dallas's central location and entrepreneurial aggressiveness have helped transform the city into a key high-tech center. The massive Infomart, just north of the central city, is home to more than 100 high-tech firms, and hosts hundreds of trade shows annually. It is without parallel, world wide, as a year-round center for face-to-face technology meetings. As chip, telecom, and

other high-tech firms have flocked to Dallas, they have forged the second-most-concentrated large technopolis in the nation, behind only Silicon Valley. The region accounts for over 40 percent of Texas high-technology jobs, and nearly half the state's high-tech revenue.

In some ways, Dallas's high-tech origins parallel those of its two keen California rivals, Silicon Valley and Los Angeles. As in Silicon Valley, north Texas developed a major semiconductor industry, with the key pioneering firm, Texas Instruments, spawning hosts of smaller technology firms in its wake. Like Southern California, the Dallas area has long hosted a large aerospace community, which, as the military economy downsized, left skilled workers easily lured to other sectors.

In the race for high-tech dominance, Dallas has some advantages over its California rivals. For one thing, its cost of living is less than half that of Silicon Valley and a quarter cheaper than Los Angeles. Electrical and gas rates are about a third lower. Local travel is easier. Housing is far more available, particularly compared with Silicon Valley.

Rather than being a "new Silicon Valley," Dallas-Ft. Worth is better seen as the model for a new breed of technopolis, more geographically dispersed, with multiple technopoles that are often quite separated from each other. These include the hardware intensive "telecom corridor" along I-75 north of the city, where as many as 600 telecommunications firms are centered on the nerdistans of Richardson and Plano. Like the sprawling Washington, D.C. technopolis, Dallas demonstrates how a sprawling network of firms and communities can operate successfully in the internet era without the close proximity so critical during the early years of the semiconductor industry.

But arguably the most exciting development in Dallas has been the movement of content-oriented companies—increasingly critical to the information revolution—into the city's long-distressed urban center. Over the past year, this phenomena has been reflected in both rental and vacancy rates in Dallas, where the central districts have actually started to outperform—in terms of increased occupancies and rents—the swanky developments on the urban periphery.

What accounts for the change? A shift in the nature of the technology revolution. While the demand for "hard" technology drives growth in engineer-friendly places like north Dallas, Plano, and Richardson, the need for "soft" content favors places



like Deep Ellum and other neighborhoods that can attract young creative workers, and the web design, advertising, and computer services firms that feed on them.

Starting from a tiny base in Deep Ellum, a raft of new firms linked to emerging technology and the information industry have begun to root in areas around Dallas's central core. These companies constitute the backbone of the emerging "214" technology community—referring to the area code shared by central Dallas and its environs—as opposed to the "972" region of the more established northern suburbs. Over the past year alone, a dozen internet firms have located in 214. "This location is very good," suggests Bret Strauss, whose eight-person firm, Third Stone Productions, has been in the area since 1997. "There's a talent pool. Ours is a young industry, and this is a young part of town."

With a growing population of permanent residents—estimated to reach 10,000 within the next five years—Deep Ellum seems destined to become the Southwest's first true 24/7 area, along the lines of New York's lower Manhattan, San Francisco's South of Market, or Boston's thriving "cyber district." And Deep Ellum is not the only old Dallas neighborhood to feel the growth of new information industries. Just west of downtown, in a tonier area known as the West End, advertising agencies, media, and internet firms have been gobbling up space. The area now has very low vacancies and a spate of new construction.

Former New Yorker Petrucello, whose firm, Brook Partners, owns half a million square feet in the area, has seen West End rents almost double over the past four years. But his big focus now lies with a major expansion of the Dallas Infomart, which would bring as much as 800,000 square feet of new tech-oriented office space to the city's somewhat desolate "arts district" located just north of the central core.

Meanwhile, at the east of downtown, between the central business district and Deep Ellum, lies yet another burgeoning new tech area. Known among developers as "Reggie-land," this area, once among the roughest and least regarded in the region, has been almost single-handedly revived by the efforts of lawyer turned developer Reggie Graham, who first started investing in the area, working one building at a time, during the sad later-'80s. Today Reggie-land has blossomed as the home for smaller tech and design-oriented firms. As in the West End and Deep Ellum, this area has also experienced a surge in prices and rents, though still much less than prime "Telecom Corridor" space, and a rise in occupancies. Where tumbleweeds effectively blew just a few years back, new advertising agencies, internet, and media firms are moving in.

**T**he recovery in Dallas's historic core may represent the final stage in the city's evolution into a model metropolis of the new century. With the emergence of a vital central district, the city has the prospect of developing an urbanity that will

extend its prodigious growth in hard technology and logistics into softer sectors of the information age economy. Of course, central Dallas is far from competing with Manhattan, San Francisco, or Boston. A considerable amount of lower-rated urban space in parts of the central core remains vacant.

But the successes sketched above have some developers predicting that the downtown core's recovery is inevitable. The area, notes developer Cliff Booth, whose Southwest Properties has purchased most of the block west of Neiman Marcus's flagship downtown store, is clearly rebounding from the devastating real estate depression of the late-1980s, which saw real estate prices fall from \$300 a square foot to nearly \$10. Today, Booth estimates, the better downtown buildings fetch between \$50 and \$100.

The real hope is in the rise of a central city population. New apartments and loft conversions have brought in several thou-



### A twenty-first century "aerotropolis." . . .

sand residents over the past few years. New restaurants are opening in the heart of downtown. "Downtown has to become a lifestyle alternative that's not available elsewhere," says Booth.

Local developers believe that Dallas's central core will ultimately rebound for the same reasons north Dallas, Deep Ellum, and the broader region have: relatively low costs, a powerful infrastructure of technology and transportation, and a relentless entrepreneurial spirit. This is how Dallas evolves. And how people are finding ways to create a great new city.

"Dallas is just becoming a real place," notes Brady Wood as he walked through the high weeds back to his Deep Ellum loft. "What I find challenging is that in Dallas you can get things solved. You can make a difference here. I think Dallas is cool. Dallas is kicking butt. It affords people a greater opportunity than anywhere I know."

