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How Emerging Entrepreneurial Hubs Are Becoming America's New Boomtowns



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 the key ingredients are density, talent, and tolerance

Two studies released last week indicate that at least a handful of smaller cities in the US, including the Raleigh-Durham area of North Carolina, Salt Lake City, Jacksonville, Florida and Nashville are emerging as places that investors and entrepreneurs are increasingly making bets.

Richard Florida, the director of the Martin Prosperity Institute at the University of Toronto and a professor of global research at [New York University](#), writes in [“The Rise of Global Startup Cities,”](#) that while venture capital has “gone global” by spreading to places like China and India, the dominant centers remain US cities that combine density, great universities, and an open-minded culture to attract the best talent. In sheer numbers, the San Francisco Bay region and the northeast US continue to account for the most dollars. However, Florida also finds that on a per capita basis for the years of the study, places like Durham, Austin, Seattle, and Jacksonville make the top ten for attracting venture capital – presumably, because these are places that smart, ambitious people want to live and work.

At the same time, Jason Rowley writes in an [editorial in Mattermark](#) that Raleigh, Nashville, Salt Lake City, and [Washington](#), DC, get the stamp of approval as places where refugees from the high cost of living in the Bay area may want to set up shop. His rationale for these “promising

alternatives” is that they are showing general upward momentum in deal making over the past few years while attracting a significant amount of capital, joining the ranks of other popular startup hubs like Austin, Seattle, and Denver/Boulder.

The fact that a select number of mid-sized American cities are making these lists is no accident. Each one has a relatively stable economy, and emerged more quickly than most regions from the Great Recession thanks to their role as government and academic centers. For the past decade, these cities have been magnets for highly educated workers, spurring investments in downtowns, green space, schools and cultural attractions. If Richard Florida is right – that [the key ingredients are density, talent, and tolerance](#) – then it’s no surprise that innovation is flourishing in these communities, and capital follows.

That was the case for [Phononic](#), a company that is revolutionizing refrigeration and heating by using semiconductors to replace compressors. Founded by two of Silicon Valley’s most respected venture capitalists the company was virtual for the first year after its launch. During that time CEO Tony Atti considered an array of locations to headquarter the company: “As an advanced semiconductor manufacturer we considered places all around the country, but ultimately chose the Triangle region of North Carolina because it had a combination of entrepreneurial workforce, business climate and quality of life that I knew would give us the best chances for success.” Now based in Durham, the decision turned out to be a good one as Phononic has raised an impressive amount of venture and growth equity funding and begun to release successful products.

It’s important to note that regions that are enjoying success as startup hubs all are struggling with growing pains that potentially could limit their continued role as centers of innovation. Top among the concerns is affordable housing, especially within walking distance of the thriving downtown centers. Office vacancies, once a driver of the inexpensive large, open floor plans in re-purposed industrial space, are becoming more limited, with rents increasing. Transportation is a headache as more people move in. And every community is interested in making sure that entrepreneurship is inclusive of women and people of color, with few roadmaps on how to arrive at that destination.

Still, there’s much to be learned about what seems to be important in supporting entrepreneurship in emerging communities, and it may have as much to do with creating an attractive living environment than with implementing specific tax policies or real estate developments. These two studies provide more evidence that attracting venture capital is largely the result of having highly educated people, who can choose to live anywhere in the world, decide to live in your town, and in sufficient numbers to make a difference.