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TONY HSIEH AND THE REBIRTH OF DOWNTOWN LAS VEGAS

BY **WINSTON ROSS** ON 1/30/16 AT 1:11 PM EST



Revelers walking through downtown Las Vegas. For years, outside of the kitschy Fremont Experience, Sin City’s urban core was known best as a seedy carnival of hookers, thieves and drug dealers. But not anymore.

WINSTON ROSS/NEWSWEEK



U.S. LAS VEGAS HIPSTERS AFFORDABLE HOUSING TRAFFIC

U *pdated* | For decades, tourists who wandered away from the congested row of casinos and overpriced restaurants along the Las Vegas Strip have been warned to stay away from downtown Las Vegas. Outside of the kitschy Fremont Experience, Sin City's urban core was known best as a seedy carnival of hookers, thieves and drug dealers. So when Jennifer Cornthwaite eschewed

law school for a career in the arts and moved here in 1998, people thought she was crazy.

But Cornthwaite found something alluring about downtown Vegas, and she soon opened an art gallery. It didn't work out, but three years later, she met her husband, Michael, and the two of them invested in the Downtown Cocktail Room, one of the area's first new bars. The couple quickly discovered a cadre of like-minded people who wanted to bring the area back to life. By the late aughts, downtown had a smattering of pricey condos, vegan restaurants and tech startups, but few aside from a small group of hipsters saw much of a reason to go there, even as things slowly improved. "The drugs and prostitution, that stuff was still around," she says. "But it was less and less as the months and years went on."

And then, boom. In September 2013, Zappos, one of the world's largest online shoe companies, moved a staff of 1,600 into the old Las Vegas City Hall downtown. Flush with cash from a 2009 sale to Amazon, Zappos CEO Tony Hsieh promised to provide \$350 million to launch a downtown renovation project. Usually it's local governments, not CEOs, that take the lead in urban renewal, and the projects come with a number of rules and regulations. Not this one. Hsieh spent about \$150 million of the money on real estate projects, but about \$150 million went toward interest-free loans to startup companies, housing developments, restaurants and artists interested in hanging a shingle on 60 acres of the city's blighted core. Over the next two years, some 300 entrepreneurs applied for and received money to set up shop downtown.

The press billed his project as an effort to turn Las Vegas into the next Silicon Valley. In September 2014, Re/code dubbed downtown Las Vegas "The Great American Tectopia." But what Hsieh really wanted was to create the next cool, livable American downtown. Part of his inspiration was the *SimCity*-style computer game, *Second Life*.

Hsieh's experiment hasn't been perfect: many of the businesses that opened with his capital have since folded. But today, Vegas is one of a half dozen cities across America poised to siphon the billions in venture capital pouring into Northern California, luring companies to smaller cities with cheaper land. Google "next Silicon Valley" and you'll find references to Detroit; Orlando, Florida; Dallas; Austin, Texas; and a half dozen others. But few of those cities have a single entrepreneur who has made such an impact with his own money.

"No one would have ever bet that downtown Las Vegas would become a case study of a downtown turnaround," says Chris Leinberger, a professor of real estate and urbanism at George Washington University's School of Business. But "if this can happen in Vegas," he adds, "it can happen anywhere."

In recent years, artists have spruced up downtown Vegas with more than a dozen murals as part of an effort to lure people to the area.

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Disneyland for Grownups

Downtown wasn't always such a dump. In the post-World War II boom years, developers built lavish hotels on Fremont Street in downtown Vegas, and travelers flocked there for debaucherous weekend getaways. Vegas was downtown in those days, with casinos like the Mirage at its epicenter. That changed in 1989, when Steve Wynn opened the Strip's first casino resort, and over the next two decades, the area increasingly siphoned money and nightlife away from the city's core. By the end of the 20th century, thanks to the city's rapid development, Las Vegas had become America's most populous city founded in the same century. But few tourists and investors ventured off the strip. And downtown Las Vegas found itself hollowed out, overrun with poverty and crime.

The city soon tried to lure tourists back to downtown. In 1995, it bought 61 acres of land from the Union Pacific Railroad and started developing it, building

apartments and offices, a performing arts center and a children's museum. It wasn't enough. The city, says Cornthwaite and others, was too focused on big projects like the Smith Center, a performing arts venue it built downtown. Those were good anchors, but not enough of a draw to convince people to actually move out of the suburbs. Still, the area was slowly coming back to life in the mid-aughts until the recession hit, and then "it was all systems halt," she says. "There were 15 or 16 high rises approved, and then all the land values became nothing."

But the downturn created a new kind of life downtown. When land values were higher, owners tended to hold out for the best price. When the recession hit, they started saying yes to anything. With the Emergency Arts building, it was, "All right, whatever, take this building and fill it with artists, with whatever you can," Cornthwaite says. "We didn't see it this way at the time, but it was a reset that needed to happen. In those couple of years, people would finally sit down and have meetings with you."

Then came Zappos's move to City Hall, which it and of itself was good for downtown. But Hsieh loved the camaraderie he saw among business owners that he decided he wanted to do more for downtown Las Vegas. He wanted to fix it.

'The Lines Were Out the Door'

With Hsieh's project came a tech-style system of measuring its efficacy. At some point, he asked staffers to count the number of strollers in a series of bars, restaurants and retail shops built entirely out of repurposed shipping containers to figure out whether parents were bringing their children there. The project also measures "collisions," serendipitous encounters between people in a city, where one entrepreneur bumps into another and the two wind up starting a business. That's how Hsieh met Ernie Loya. He and his wife, Connie, recently moved from the suburbs into the towering Juhl condominium building. Their house in The Lakes, a master-planned subdivision 30 minutes from downtown, had a pool and a giant backyard. Now Loya can walk to work.

Loya was a Zappos employee, a representative at a call center, but his dream was to run his own barbecue joint. On the side, he had started making his own salsa, and one day while delivering some to Zappos, he ran into Hsieh. "He wanted to try some barbecue," Loya says. Big Ern hooked him up, and Hsieh wound up offering him not just the financial backing but classes on running a business. When Big Ern's BBQ opened in Vegas's Container Park in November 2013, "the lines were out the door," he says. "I had weekends with a thousand customers a day."

Tony Hsieh gives a presentation about his downtown renovation project at the Life Is Beautiful Music Festival on September 25.

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Decadence and Greed

It's unusual, for a single investor to so dramatically plunge cash into one neighborhood, the way Hsieh has in downtown Las Vegas. But it's not unprecedented. In Detroit, Quicken Loans's Dan Gilbert has invested in a similar fashion with a larger scope than Hsieh's and arguably more dramatic results. "I heard there was a skyscraper sale going on in downtown Detroit," Gilbert often repeats. "So I bought nine." He has since purchased 70 skyscrapers, renovated them all and filled them with tenants, says Leinberger, the real estate professor. In both Las Vegas and Detroit, "it's really driven by one person."

That's unusual because most of the downtown revitalization happening across America began with a government-funded "business improvement district," a taxpayer influx of capital that's typically directed first at urban entertainment. "Baseball stadiums, arenas," says Leinberger. "It's cultural. All of a sudden you're giving people in the entire region a reason to come downtown when they haven't in 20 or 30 years, or ever." Then city leaders tend to focus on building rental apartments, which attracts young people to the area who can't afford to take major risks. What follows is the housing market, Leinberger says, "older

people willing to put the largest asset in their personal portfolio at risk in a downtown."

What's interesting about both Hsieh's and Gilbert's gambles is that they led with office employment, Gilbert's skyscrapers and the headquarters of Zappos. Since the 1990s, when downtowns across America saw jobs disappear to the suburbs, the only sectors of the urban core economy were banks, professional service firms, the courts and government, Leinberger says. Gilbert and Hsieh, he adds, "pushed the fast-forward button."

But you can only fast-forward so far. Today, the experiment that built Loya's business is largely over. Hsieh's money is spent on real estate projects and by the dozens of the businesses that have opened. Some have closed; some are still thriving. Downtown is no longer the shell of a neighborhood that it once was, but it's not exactly a booming metropolis, either. The tsunami of cash that hit downtown Las Vegas didn't all land in the most effective places. The project spent \$11 million on a car-sharing program, for example, but without enough downtown residents to support it.

Chris Ramirez grew up in Rancho Bel Air, a neighborhood near downtown, but moved to the city's core in 2010. He had spent the previous 10 years trying to launch some kind of film company in Vegas, doing location scouting for *The Hangover*, among other movies. Then his plans got a welcome influx of capital from Hsieh. In 2011, Ramirez partnered with the shoe magnate to launch Downtown Films, spinning off a development firm and a production company. The plan was to kick-start a film industry in his hometown, out of office building on Fremont Street.

It was a perfect idea, Ramirez tells me, because "people who move here, they didn't cut it in their city. You can make a living here without being that good, which makes it a very entrepreneurial city. That lends itself fairly well to an experiment like Tony's." Ramirez was struck, meeting with Hsieh and his partners, at how little it seemed to matter whether his business made much financial sense. "They didn't care about my business plan or my background,"

he says. "I wanted to build something downtown. That's what they cared about."

But Ramirez sold the film company last year. "I hate to say this, but the experiment is over," he says. "It was an experiment. It didn't really work, and now...there's no more new funding. If you don't make it, you don't make it."

In September 2014, Re/code reported that Hsieh was stepping down as leader of his revitalization project (Hsieh denies that, saying he never had an official role). Then he laid off about a third of its staff of 100. "We have not experienced a string of tough breaks or bad luck," wrote David Gould, who left a teaching job at the University of Iowa to become the project's "director of imagination," in an open letter in *Las Vegas Weekly*. "Rather, this is a collage of decadence, greed and missing leadership." That same year, three of the project's entrepreneurs committed suicides, as their ventures failed. Newspaper and magazine writers pounced. As the *Las Vegas Review-Journal's* John Smith put it, "I don't count a mini-mall made of metal shipping containers as a ringing business success."

The El Cortez, one of a handful of iconic casinos in the heart of downtown Las Vegas.

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'The Next Obvious Thing'

Perhaps not. But Hsieh says the goal for the downtown project was to break even at the end of five years—not for every business to survive, not for

downtown Las Vegas to magically transform itself into Paris, but for the loans to be repaid and for enough money to come in from real investments to break even. So far, the project is averaging slightly ahead of that, Hsieh tells *Newsweek*. About 35 of the small businesses launched by the project are still alive. Hsieh acknowledges that downtown isn't where it needs to be yet, and that affordable housing is a big part of that issue; the project's residential portfolio includes about 500 housing units, he says, but there's not enough in the \$900-to-\$1,400-a-month range. In April, the project announced the purchase and renovation of a 315-unit apartment building where monthly rents would range from \$650 to \$850. "Housing," he says "is the next obvious thing."

Vegas' sprawl makes the housing issue difficult. Hsieh could build five affordable condominium towers downtown and still might not draw people from the suburbs, with their inexpensive houses, swimming pools and tree-lined trails. And traffic isn't bad in and around Vegas, which means it's hard to convince people to cut down on their commutes.

Las Vegas's downtown is unique, and revitalizing it has a unique set of challenges. But it's also an American downtown. And in the long term, more and more people will inevitably move to the inner city, Leinberger says, in Vegas and everywhere else. Downtowns appeal both to millennials who prefer not to own cars and to baby boomers looking for simpler and more compact lives. The suburbs are out. The inner city is in. And that trend, he predicts, will continue for quite some time. "This is going to happen in every metro area in the country," he says. "There's pent-up demand for this stuff, and it will fuel the home-building business and real estate business for the next 30 to 40 years."

For Tony Hsieh and the business owners who've gambled on downtown Las Vegas, it can't come soon enough.

Correction: An earlier version of this story misspelled the name of Zappos CEO Tony Hsieh, stated an inaccurate year of the sale of Zappos to Amazon, contained the wrong figure of the amount the Downtown Project spent on interest-free loans, incorrectly reported that the project invested in a car-sharing

program and stated that the Downtown Project built the Juhl condominiums, which were built several years before Zappos moved to Las Vegas.

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