

Hot Spots

Got the itch to move? Looking to expand? Our Hot Cities rankings are back for 2005 and ready to help point you in the right direction.

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By Mark Henricks

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Editor's note: To view the entire Entrepreneurial Hot Cities ranking and use our interactive location-finding tool, visit our [Hot Cities area](#).

Anthony Helmstetter went to high school in Phoenix, and when it was time to start his business, that's where he--like many others--returned. In Phoenix, the co-founder of MyGoals.com saw a sustained population boom creating an environment ripe for small business. "When you have people coming in, that creates demand for products and services," says Helmstetter, 43. "A lot of people are bringing their dollars into the Phoenix area."

After hatching his idea for an online goal-setting service in Silicon Valley in 1999, Helmstetter relocated to Phoenix in 2000 before going operational in 2001, lured by the city's rapid growth, modest real estate prices and sunny climate. Since then, MyGoals.com has grown to have hundreds of affiliates and thousands of users worldwide.

Thousands of similar stories helped Phoenix lead large cities (cities with more than 50,000 businesses) in *Entrepreneur* and NPRC's Annual Entrepreneurial Hot Cities rankings. Arizona, likewise, was the top state, and nearby Tucson was the second-place midsize city (20,000 to 50,000 businesses). But high-ranking hot areas exist in every region and in all sorts of environments. Some Hot Cities feature low costs and rapid population growth. Others offer stable populations with excellent quality of life. Some Hot City economies rely on government and tourism, while others are supported by financial services and manufacturing.

Still, some common characteristics emerge among the leaders, says Justine Walden, senior researcher at National Policy Research Council, a Washington, DC, think tank that calculated the Hot Cities rankings with *Entrepreneur*. For instance, the communities that fared best tend to have pleasant climates, good universities and capacious airports.

If there is one big trend evident from this year's Hot Cities, it's that small-business success tends to track population growth. The Census Bureau's 2005 report on the 100 fastest-growing counties found 60 in the South, 23 in the West and 17 in the Midwest. About the hot spots for entrepreneurs, Walden says, "Of the top 10 states, seven are in the Southeast or Southwest. And of the top 10 cities, eight are in the Southeast or Southwest."

In talking to entrepreneurs and those who advise them in our Hot Cities, it's also clear that entrepreneurship is regarded as a linchpin to the nation's prosperity. "In Arizona, 95 percent of all companies have less than 100 employees," says Tom Fraker, executive director of the

Arizona Small Business Association, a 3,000-member lobbying and education group in Phoenix. "That's why I have a passion for this."

#1 Phoenix-Mesa

The Phoenix-Mesa area dominated on the strength of robust growth in new businesses. Its 12,350 startups represented a larger percentage of its total number of companies than any other city. More Phoenix-Mesa small companies also reported robust growth than businesses in any other city.

One of the community's main appeals is its real estate. Home prices are substantially lower than those in most other metros, and that attracts families anxious to own their own homes, as well as real estate investors, home-builders, construction workers and all the support services.

Rich Senopole, director of the Maricopa Community Colleges Small Business Development Center in Phoenix, says the region is also distinguished by an unusually large and active number of organizations devoted to supporting small business. Scores of private- and government-supported for-profit and nonprofit agencies provide education and other assistance to area entrepreneurs, he says. "I don't think I've ever worked anywhere there's been so much communication and coordination between groups, rather than competition."

Phoenix's challenges include undertaking its first light-rail project--a multiyear process that may significantly disrupt businesses located in construction zones. It also must cope with the rising real estate costs and other effects of a strong, long-term population increase that continues unabated: The Census Bureau says Maricopa County had the largest population increase of any county from 2003 to 2004, adding 112,233 people to top 3.5 million.

#2 Charlotte-Gastonia-Rock Hill

Leroy Hill was born and bred in Charlotte. When he left IBM in 1993, he started Yorel Integrated Solutions Inc. there as well. But his personal roots were only part of the reason. "Charlotte is a pro-business town," says Hill, 45. "That has everything to do with helping a small business succeed."

One advantage is the strong financial services industry. Home to both Bank of America and Wachovia headquarters, Charlotte is the nation's second-largest banking center. And when Hill was looking for startup capital, he found it at a local bank. "[The banks are] one of the key reasons small entrepreneurs can flourish here," he says.

Charlotte's once-dominant textile manufacturing industry has been decimated by foreign competition. But other manufacturers, including high-tech firms, have come to take advantage of the low-cost work force. And entrepreneurs like Hill find ready buyers for sophisticated IT among the city's financial services companies. Today, Yorel employs 40, and he sold nearly \$30 million in IBM mainframe and midrange computer systems in 2004.

#4 Las Vegas

In 1999, Michele Tell, 38, and James Woodruff, 37, were working for Las Vegas hotels and

casinos. "We could see a lot of growth that was going to take place, and we thought this would be a good time to start our own business," says Woodruff, co-founder of Preferred Public Relations & Marketing. That's putting it mildly.

What the two entrepreneurs saw was a place where low taxes, business-friendly regulations and low living costs--especially compared to nearby California--drive population growth so brisk that a mushrooming economy easily qualified it as the fourth-place Hot City.

More than 6,000 people a month move to Clark County, Nevada, according to the Census Bureau, adding powerful demand for residential and commercial construction and consumer services to an economy already well-founded on robust gaming and tourism. Meanwhile, Tell and Woodruff's entrepreneurial move has turned out to be a solid one. In six years, Preferred Public Relations & Marketing has grown from a kitchen-table venture employing only the husband-and-wife co-founders to a 15-person operation with \$1.5 million in projected 2005 sales.

#6 Washington, DC-Baltimore

The District of Columbia and environs rely on two industries--government and tourism--which were both affected by the terrorist attacks in 2001. After terrorists damaged the Pentagon, the number of tourists visiting the Washington monuments shriveled. But government spending soon expanded even more rapidly than tourism shrank. That fueled a boom in small companies in the suburbs, especially those dealing with homeland security, qualifying the capital for sixth place among big cities.

"A lot of the growth is in government-related contracting opportunities," confirms Sharon Hadary, executive director of the Center for Women's Business Research in Washington, DC. "In Northern Virginia in particular, we have a very strong high-tech community."

In addition, Baltimore's Johns Hopkins University, home of the famed medical school, gets the most federal research dollars of any U.S. university. And Baltimore's renowned urban renewal continues with the West Side Initiative, the city's biggest redo since its Inner Harbor project more than two decades ago.

High costs and burdensome regulations make the District itself a challenge to entrepreneurs. But metropolitan population growth is robust. Loudon County in nearby Virginia recently ranked third among all counties in percentage growth from 2003 to 2004, expanding 8.1 percent.

#12 Chicago-Gary-Kenosha

America's Second City is first among megalopolises when it comes to entrepreneurial activity. Chicago's 12th-place ranking puts it well ahead of peers such as Los Angeles, New York City and San Francisco. David Weinstein, president of The Chicagoland Entrepreneurial Center, says being large and diverse helps Chicago in many ways.

"The fact that we don't have just one industry, but several industries doing business with each other, is a core advantage of a big city like Chicago," says Weinstein, whose nonprofit

organization gives business and funding advice to small companies. Indeed, Chicago leads U.S. cities in a wide array of industries, from distribution--it's home to the world's busiest airport--to manufacturing to professional business services.

All Chicago lacks may be a solid base of experienced serial entrepreneurs. "You go out to Silicon Valley, and you have guys and gals who have started 10 businesses," Weinstein says. "We don't have the repeat entrepreneurs."

#1 El Paso

El Paso ranked only third among midsize Hot Cities in startups and tied with Madison, Wisconsin, for second in growth. But combined, its solid showings on both indices easily put it ahead of second-place Tucson, Arizona, in the overall entrepreneurial rankings.

That doesn't surprise Richard Dayoub, who, before becoming president of the Greater El Paso Chamber of Commerce two years ago, started and ran a travel agency in El Paso for 34 years. "You have the dynamic of a growing metropolitan community, with a lot of the nice things people look for in quality of life," says Dayoub, citing the mild, dry, sunny climate; motivated bilingual work force; low costs; and strategic border position.

El Paso is more than 500 miles from the Texas capitol in Austin, and in many ways its economy is more closely tied to neighboring Las Cruces, New Mexico, and Ciudad Juarez, Mexico, than to the rest of the state or the nation. The North American Free Trade Agreement led to the almost complete loss of the city's once-healthy garment industry. But trading with Mexico and supporting factories on both sides of the border have helped overcome the loss of textile plants. El Paso retailers benefit from more than \$3.4 billion a year in spending by Mexican visitors, while a current boom in factories in Mexican border towns, or maquiladoras, bodes well for the city's overall economy in the near future, according to a report by the El Paso branch of the Federal Reserve Bank of Dallas.

Nearby Fort Bliss occupies more than a million acres in Texas and New Mexico, and provides a stable source of government contracts. Providing products and services for its tens of thousands of soldiers and civilian employees makes for another healthy industry. All told, Dayoub says, the military installation supports 16 percent of El Paso's economy.

El Paso's future doesn't seem to feature any NAFTA-like bumps. If the current base-closing campaign follows the recommendations of the first review panel, Fort Bliss will gain the largest number of military personnel in the country. Whether Bliss grows or shrinks, El Paso is likely to offer one quality-of-life attribute that many a time-strapped entrepreneur can appreciate: At 19 minutes, it has one of the shortest average commute times of any city in the country.

#6 Madison

When Mina Johnson-Glenberg started her company in Madison two years ago, the former Californian worried about finding the local software talent she needed. But the 41-year-old founder of The NeuronFarm LLC, a six-person developer of web-based reading instructional applications, learned otherwise. "I have excellent programmers with cutting-edge skills," says

Johnson-Glenberg, who also praises the state government's efforts to support entrepreneurs with grants and help writing business plans.

Wisconsin's capital is the paradigm for the idea that quality of life attracts entrepreneurs. Numerous studies have ranked Madison tops for schools, politeness, friendliness to people from kids to retirees, internet usage, and now, capacity to foster and grow business startups. "Madison simply offers superior living," explains Wayne Corey, executive director of Wisconsin Independent Businesses, a for-profit small-business group with 16,000 members.

Johnson-Glenberg says the University of Wisconsin supports entrepreneurs with professional development and networking events, but she remains concerned about a lack of local angel investors. "Midwesterners are traditionally very risk-averse," she says. "How do you make these risk-averse people part with their cash? I don't know."

States

#1 Arizona

Since Phoenix led big cities and Tucson was second among midsize cities, it's no surprise Arizona topped the states for starting and growing a business venture. And indeed, a gulf as wide as its namesake gorge separates the Grand Canyon State from the other top states for entrepreneurs.

Annual statewide population growth exceeding 200,000 people stimulates a construction spurt supporting startup and expansion of many kinds of businesses, says the Arizona Small Business Association's Fraker. "The in-migration to Arizona and the housing boom have been dramatic," Fraker says. A construction firm can support four or five others providing support services and products, Fraker figures, and he believes that virtuous cycle is behind the prosperity.

Low labor and real estate costs, especially relative to neighboring California, make the state nearly irresistible to relocating Americans. Challenges include developing a homegrown financial industry to capitalize entrepreneurs and dealing with rising real estate costs.

#2 New Jersey

Alisa Weberman started her business in California and ran it there as a part-time venture for five years. But when it was time to make Listen & Live Audio Inc. a full-time enterprise, she and her co-founder moved to Roseland, New Jersey. Proximity to publishing firms in New York City was a huge advantage to the audio book publisher, which has grown to six employees and \$1 million in projected 2005 sales since its move seven years ago. "The company really took off when we moved here," says Weberman, 38, who chose New Jersey over New York City because of the availability of warehouse space.

Heavily populated, well-regulated and high-cost, the state of New Jersey could hardly be more different from Arizona. But its second-place finish is no accident. The same things that distinguish it from many Western states make New Jersey attractive for small businesses, says Brenda B. Hopper, state director of the New Jersey Small Business Development Center

in Newark.

"New Jersey is the state with the highest population density and the highest [household] income," says Hopper. "That means we have a lot of people here who spend a lot of money." The state boasts world-class colleges, including Princeton University, and its profoundly developed land, sea and air facilities make it a magnet for transportation service firms. New York City and Philadelphia also offer opportunities for small firms to provide back-office operations to those cities' sizable financial service industries, Hopper says.

New Jersey remains congested--Newark's 31.5-minute average commute time ranks behind only Chicago and New York City--but as long as it retains its strategic position between East Coast population centers, the state is likely to continue to be one of the best places for entrepreneurs to tap into the country's richest markets.

To view the entire ranking of cities, counties and states, and to use our our interactive online location-finding tool, visit our [Best Cities area](#).

Mark Henricks is Entrepreneur's "Staff Smarts" columnist.

How does your city measure up? Check out the best U.S. cities for entrepreneurs.

Large Cities	Midsize Cities	Small Cities	States	Counties
Overall Rank [?]	City/Metro Area/State	Young Company Rank [?]	Rapid Growth Rank [?]	
1	Phoenix-Mesa , AZ	1	1	
2	Charlotte-Gastonia-Rock Hill , NC-SC	3	2	
3	Raleigh-Durham-Chapel Hill , NC	2	3	
4	Las Vegas , NV-AZ	4	7	
5	Indianapolis , IN	5	6	
6	Washington-Baltimore , DC-MD-VA-WV	10	4	
7	Atlanta , GA	6	12	
8	Nashville , TN	12	5	
9	Austin-San Marcos , TX	8	10	
10	Memphis , TN-AR-MS	7	13	