

# What Matters

## Topic: Innovation

### A new kind of economic indicator

by Richard Florida

7 July 2009

In 2007 Charlotta Mellander and I examined how various regional factors shape housing prices. We found that two factors combine to shape them. The first is pretty obvious: income. The wealthier the residents, the pricier the housing. The second and much larger factor is reflected by our Bohemian–Gay Index, which combines the concentration of artists, musicians, and designers with the concentration of gays and lesbians in a region. Regardless of which variables we applied, what version of the model we used, or which regions we looked at, the concentration of bohemians and gays consistently had a staggering impact on housing values.

We found that the presence of these populations had direct effects on housing values as well as other locational variables (like income and human capital), making these places more attractive to other populations and demographics. In other words, the presence of these groups not only made housing values rise, it made incomes rise as well.

Why would this be? Our theory is that bohemian and gay populations capitalize on two distinct factors of high-value housing. The first is an aesthetic–amenity premium. Artists and bohemians not only produce amenities but are attracted to places that have them. As selective buyers with eyes for amenity, authenticity, and aesthetics, they tend to concentrate in places where these things abound. The second is a tolerance or open-culture premium. Regions with large bohemian and gay populations possess low cultural barriers to entry, allowing them to attract

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talent and human capital across racial, ethnic, and other lines. Artistic and gay populations also cluster in communities that value open-mindedness and self-expression.

And their status as historically marginalized groups means that artistic and gay populations tend to be highly self-reliant and receptive to newcomers. They've had to build networks from scratch, mobilize resources independently, and create their own organizations and companies.

For all of these reasons, regions where artists and gays have migrated and settled are more likely than others to place high premiums on innovation, entrepreneurship, and new-company formation. It's not that gays and bohemians drive up housing simply by paying more; their effect on housing prices is far less direct. Bohemian and gay residents drive up housing value because they make areas that were already ripe for growth even more desirable, and to a greater number of people.

*This sidebar is excerpted from Florida's recent book *Who's Your City? How the Creative Economy Is Making Where You Live the Most Important Decision of Your Life*.*