

The 10 Hottest Spots to Start a Small Business

By **SHELLEY SEALE**, The Fiscal Times July 1, 2011

Where are the hottest spots to start a small business? With more Americans becoming entrepreneurs than any time in the past 15 years, it's a burning question without easy answers. But a combination of factors makes certain metropolitan areas more attractive than others. These cities have strong economies, expanding populations, access to an educated and talented workforce, and are densely packed with like-minded entrepreneurs. Some are located in states with no **corporate income tax** and often have a relatively low cost of living and available office space.

A weak economy with **massive corporate layoffs** are helping to drive the growth in **new-business owners**. "Many people, even if they still have their jobs, are feeling a little insecure. So they may be building a company of their own after hours as a safety net," says Penny Pickett, associate administrator for the Office of Entrepreneurial Development at the U.S. Small Business Administration.

Immigrants, Pickett says, contribute "tremendously to this entrepreneurial energy and growth." Those over age 50 are also major factor. "Many of those people are retiring early, maybe even getting a pink slip, and saying 'This is what I've always wanted to do.' Maybe their kids are grown and they don't have as much responsibility anymore," she says.

This list of the top 10 metropolitan areas for startups is based on **Business Journals' 2011 rankings**, with additional reporting by *The Fiscal Times*. The rankings reflect such factors as population growth, economic strength, gains in private-sector employment and the number of small businesses – defined as private-sector employers with 99 or fewer workers. Numbers for populations and businesses include surrounding areas.

No. 1

Austin, TX

Austin was the leader in the Business Journals ranking for the second year in a row, with gains in three categories: Population (up 20 percent between 2004 and 2009), employment (job expansion of 9.5 percent between 2005 and 2010), and small business growth (up 1.5 percent from 2007 to 2008). The cost of living in Austin is below the national average, and the University of Texas and high-tech industries offer innovation and a largely educated workforce. It is also the "Live Music Capital of the World," home to the international South by Southwest festival and **many musicians, artists, and writers**.

Texas has no personal or corporate income tax. There is a state business franchise tax of 0.5 to 1.0 percent, with an exemption for revenues under \$300,000. Other state and local business taxes are lower than the national average.

"Even though it was a really tough time to start a new business with such a soft economic environment, I decided to cut way back on living expenses and follow my long-held passion for travelling the world," says Keith Hajovsky, who last year founded Travel Sherpa Keith, a travel consulting and tour guide company in Austin, after being laid off from a software company.

No. 2

Oklahoma City

Oklahoma City rose from 15th place in last year's Biz Journals study, due to its 12-month small-business growth rate of 0.4 percent and its third-place ranking in the country for one-year job growth. It offers an affordable cost of living and a high concentration of local investors from the oil and gas industry.

The state has 52 certified "business incubators," providing assistance for startups that includes affordable lease space and administrative services. "There are a lot of networking resources in Oklahoma City," says Gary Nelson, CEO of iThryv LLC, which provides financial software and literacy programs. Nelson says the quality of life, revitalized downtown, and cultural activities, along with a talented workforce, has enabled him to maintain a one percent employee turnover rate.

There are tax breaks for qualified manufacturing, research and development, and computer/data processing companies. The state also offers cash rebates for job creation and for companies that are subcontractors to federal prime contractors (the only incentive of its kind in the country).

No. 3

Charleston



Second only to Austin in 2009-2010 job growth, Charleston, SC, encourages entrepreneurship with the New Ideas SC Contest to help develop ideas into viable businesses; winners receive seed funding and access to advisers and venture capitalists. The Charleston Metro Chamber of Commerce recently launched an Entrepreneur Center that offers business development courses, mentoring, networking events, and access to retired or semi-retired executives willing to serve in management positions.

"They know what you will be going into and what could stop you," says Frisco Thumbtzen, owner of Cajun Kountry Kitchen restaurant, who completed the FastTrac GrowthVenture class in April. "I'd rather be told before I make the mistake." The city also provides business incentives, such as workforce recruiting and training programs and sales-tax exemptions that reduce startup and annual operating costs.

No. 4 Charlotte

Charlotte's brisk 18.6 percent population growth over the past five years contributes heavily to a healthy small business environment. The nonprofit Business Innovation & Growth Council works to create an environment that develops high-impact, high-growth entrepreneurs. Matching fund grants are promoted for innovative startups, and the Institute for Entrepreneurship offers counseling and promotional assistance. The state of North Carolina offers tax credits, funds and grants, and among the nation's lowest effective business taxes and lowest mandatory expenses such as workers' compensation and unemployment.

No. 5 Seattle

Home of one of the world's business success stories, Microsoft, and a leading metro area in research and technology, Seattle exudes innovation and intellectual creativity. The area's clean-tech industry is expected to grow about 1.4 percent annually over the next few years, according to the Puget Sound Regional Council.

Like Texas, Washington has no personal or corporate income tax, and also no state capital gains tax. The state offers a number of business tax incentives for biofuels, research and development, international services, manufacturing, food processing, and the technology and aerospace industries that helped build Seattle's entrepreneurial environment. There is also a local program offering tax credits and employee training programs for all businesses.

No. 6 Tulsa

Just slightly behind Oklahoma City, Tulsa boasts 26.29 small businesses for every 1,000 residents – nearly 10 percent above the national average. A pro-business environment and low startup costs all contribute to making it an appealing place for entrepreneurs.

Bill Bartmann is the ultimate example of an underdog who created several businesses through necessity. Once homeless, Bartmann turned a foreclosed oil-field pipe manufacturing plant in Tulsa into a successful business in the 1980s. When oil prices sank, so did his company. Last year Bartmann started a new company, CFS II, that focuses on debt resolution – something he has personal experience with.

No. 7 Raleigh

The Raleigh Business & Technology Center is a haven for entrepreneurs and home to the Virtual Business Incubator, a 10-month program to assist with such things as business management, strategic planning, and financial forecasting. As in Charlotte, the state provides incentives for new businesses, and the city of Raleigh has several programs offering grants, incentives and loans. Pickett of the SBA says that even for Internet-based companies the local business environment and support system is crucial. "One of the biggest things is the local network. A lot of times entrepreneurs feel like they're there alone, and you need that social environment to support your company." The SBA reports that women- and minority- owned businesses in the area grew by more than 66 percent from 2002 to 2007.

No. 8 Denver

Metro Denver's population is growing by 46,000 people a year, and the business vibe is youthful and fun. "Colorado is the perfect place to start a company and incubate a business, and I want to be a part of that," says Henry Schloss, who started Energy House, a 7,000-square-foot shared work space for entrepreneurs, and plans to open 100 similar locations nationwide.

Colorado simplified its corporate income tax structure in 2008. There is a tax credit for businesses that create at least 20 new jobs and pay above-average wages. Training and technology grants are also available.

No. 9 Washington

Strong population growth and public-sector support help encourage new businesses in D.C. Nearly 33,000 private-sector jobs were added there between 2009 and 2010, bucking the national trend. The Washington retail market is also strong, ranked first in the U.S. by Marcus & Millichap's 2010 National Retail Index, and unemployment is among the lowest in the country at 5.7 percent.

The city is also a magnet for businesses that want to attract highly educated employees; it boasts the highest percentage of postgraduate degrees and double-degree households in the nation. Incentives are available for high-tech companies, supermarkets and nonprofits, and the district offers free startup and employee training assistance.

No. 10**New York**

Despite a high cost of living – the biggest drawback for entrepreneurs – metro New York’s ratio of 27.73 small businesses per 1,000 residents is strong. “Size – just being bigger – increases innovation and outcomes,” says Stolarick of the Martin Prosperity Institute. “Density magnifies that effect.” For startups in the city itself, there are a number of small business resource centers, and the New York Public Library and the Citi Foundation sponsor a startup business plan competition for entrepreneurs that awards prizes totaling more than \$30,000 to five winners.

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