

Hard Times Happy Town

ZAPPOS CEO TONY HSIEH IS SPENDING \$350 MILLION
TO BUILD A STARTUP PARADISE IN DOWNTOWN LAS VEGAS.
IT HASN'T BEEN ALL UNICORNS AND BUTTERFLIES

BY SUSAN BERFIELD

PHOTOGRAPHS BY MICHAEL FRIBERG



Tony Hsieh spent the last weekend of October celebrating with some 30,000 people at Life is Beautiful, a three-day festival in downtown Las Vegas with one main sponsor: Hsieh. People wrote their biggest dreams and fears on a wall; two actors improvised love stories. A Ferris wheel, solar-cooked tacos, and 53 custom cocktails were available. Kanye West and Lionel Richie performed. So did Hsieh's favorite band, Rabbit! "They play only happy music," he says. "They're our 'hold' music." Hsieh is chief executive officer of Zappos.com, the online shoe retailer known for boasting about the happiness of its employees and customers. He's also the founder, financier, and impresario of the Downtown Project in Las Vegas, an ambitious social experiment in urban renewal.

Hsieh, who's 41 and single, sold Zappos to Amazon.com in 2009 for \$1.2 billion. He received about a third of that, mostly in stock. Two years later, Hsieh promised to spend \$350 million to create his own utopian community, a place of inspiration and serendipity where everyone could become smarter and, of course, happier. He wasn't leading people into the desert, exactly, but to a down-on-its-luck neighborhood two miles from the Strip that he hoped to turn into a thriving hub of high-tech creativity. When he started in 2012, his pitch was, "What if you could play SimCity for real?" Sometimes he calls the project a startup city.

Zappos's headquarters is in Hsieh's startup city—he moved it from the suburbs to the old City Hall and bought 60 acres and 100 buildings in the area around it. He's promised money to 50 small businesses, replacing check-cashing operations and pawnshops with bars, restaurants, and co-working spaces. He owns the Inspire Theater, on the main boulevard, which has a cafe and two bars, plus an auditorium.

Hsieh has backed an additional 100 or so tech startups. They're run by friends, family, and acquaintances from around the country, people who have "a bias to help," he says, and who are willing to live in, or at least regularly visit, downtown Vegas. They have to be willing to hang out, too; the vetting often includes an evening in a bar. "Would Tony want to have a beer with you and find out what you think about outer space and aliens? Absolutely," says Dylan Jorgensen, who worked for the Downtown Project. "In a sense, the city is curated." Amy Jo Martin runs a social media company called Digital Royalty. Hsieh is a client and investor, and Martin was among the first to follow him to Vegas. She wrote on her blog: "Imagine if Walt Disney ran Silicon Valley but everyone lived on the set of *Cheers*."

When Hsieh met Ashton Allen, co-founder of Rabbit!, he called it a "serendipitous collision." That was in 2010, at a conference in Hawaii. Later that year, Allen joined Hsieh for part of his bus tour to promote *Delivering Happiness: A Path to Profits, Passion, and Purpose*, his memoir disguised as a management book. They began writing a song called *Almost Fairy Tale*. Here's a verse: "It's not as crazy as it seems. Leaving the forest for the field of dreams. We didn't make it, but we didn't fail. We were an almost-fairy tale." Allen moved to Las Vegas and became music director for the project. On the book tour, Hsieh also met David Gould, a professor at the University of Iowa. Gould eventually joined the project, too. In the summer of 2013 he became the "director of imagination."

Hsieh often said he wanted his \$350 million to generate a "return on community," not just a return on investment. Community is a loaded word in a place where unemployment is high and homelessness common. It also gave some the impression that Hsieh didn't consider the Downtown Project a business. It took a while for him to realize this. By early 2014, though, Hsieh had begun to temper expectations. He posted a note on the project's website in February saying that people had misunderstood his goals: The Downtown Project wasn't going to do the work of government or charities. It's "a startup entrepreneurial venture that happens to also have good intentions," he wrote. Instead of looking for a "return on community," the Downtown Project instead wanted a "return on connectedness."

By summer, Hsieh's \$350 million had mostly been committed—\$200 million had gone toward real estate—and few of the project's companies were profitable. Gould, Allen, Jorgensen, and the rest of the 90-person Downtown Project staff were called into a meeting at the Inspire Theater in late August. Hsieh, Fred Mossler, who helped Hsieh build Zappos, and others reviewed operations and said the project had to focus on those businesses that provided revenue. The reaction was subdued.

Few thought there would be layoffs. When Gould heard they were coming, he resigned. He wrote an open letter to Hsieh that was published in a local newspaper at the end of September: "Business is business" will be the defense from those you have charged with delivering the sad news. But we have not experienced a string of tough breaks or bad luck... While some squandered the opportunity to 'dent the universe,' others never cared about doing so in the first place." Gould returned to Iowa.

Allen was let go. So were Jorgensen and almost 30 others, one-third of the staff. Hsieh referred to author Jim Collins's idea that companies should "fire bullets, then cannonballs." That is, test lots of ideas, then focus on the most successful. He made public a five-year business plan and noted that the Downtown Project was on schedule; Year Three, time to streamline operations. He also had to reassure everyone that—contrary to media reports—he wasn't stepping down as chief executive; he'd never been the chief executive. In fact there was no CEO, and there were no official titles. He was the animating force, the founder, to be more literal. He listed all the investments he wasn't responsible for. The project's path, he wrote, "hasn't been and won't be all unicorns and butterflies."

Before there was a Downtown Project, there were three bars on an otherwise desolate street in what had once been the geographic and commercial center of Las Vegas. Hsieh's favorite was the Downtown Cocktail Room, a speak-easy with a secret door. The owner, Michael Cornthwaite, was part of a small group of businesspeople and artists who'd begun to reclaim the area. Cornthwaite wanted Hsieh to get involved. He didn't know that Zappos, which today has 1,600 employees, had outgrown its offices in the nearby suburb of Henderson when he mentioned that City Hall would soon be vacant. It's a semicircle of a building with a courtyard perfect for parties, and it's a few blocks from Cornthwaite's bar.

Hsieh moved into a luxury apartment building called the Ogden. He combined three apartments into one and rented 60 more as crash pads for guests



Hsieh's Inspire Theater
in downtown Las Vegas

“Michael is very persuasive,” says Hsieh. “Tony asked lots of questions. I could see the wheels turning,” says Cornthwaite. Instead of building a campus for Zappos, Hsieh would build a city.

It was 2010, and Las Vegas was in trouble: It had more homes in foreclosure than almost any other city in the country. The Sands was facing bankruptcy. The Fontainebleau Resort stood unfinished. Downtown had been neglected even during the good times. The Strip had eclipsed it, and the money spent there stayed there. Residents who could afford to left for the suburbs; Sears, JCPenney, and even the 7-Eleven closed. A couple of casinos and hotels still attracted tourists, as did the gaudy Fremont Street Experience, a five-block entertainment district with what’s billed as the world’s largest video screen. The millions of visitors went no farther than the Heart Attack Grill, though; crossing to the other side of Las Vegas Boulevard, into the real downtown, was too dangerous. “I thought if just 10 percent of what Tony was talking about happened, it would be incredible,” Cornthwaite says.

In 2011, Hsieh left his mansion in a gated community in the Las Vegas suburbs and moved into a luxury apartment building downtown called the Ogden. He rented three apartments for himself, combining them into one, and 60 more as crash pads for guests. Several Zappos executives and many newcomers ended up living at the Ogden, too. In the early days, visitors to Hsieh’s place used to put their ideas on Post-it notes on a wall in one living room: That was the master plan. The notes are still there. Another of the living rooms has live plants covering the walls and fake ones hanging from the ceilings. Bottles of liquor line the counters of the three kitchens, with glasses nearby.

Spending time with Hsieh there is like being granted an

audience with a prophet preparing for a bachelor party. When I meet him, he’s sitting on a rolling, red-plastic school chair in the dimly lit media room. His laptop is open in front of him. My chair has been placed close to his, almost like a test: Who will back away first? “A lot of people, when they break up with someone, they don’t talk to that person again for the rest of their lives,” Hsieh says as he describes the origins of his fairy tale song. “But you’ve invested all that time into it.” He pauses. “Which one are you?” I pause. I don’t think he’ll like my answer. For the record, he’s the kind who stays in touch with former girlfriends. There are no obvious reminders of them in his place. But written on a white-board in bubble letters is the question, “What Would Love Do?”

Hsieh calls himself an introvert. In our conversation, he says he would like to be anonymous, and he wears an undistinguished uniform of jeans and untucked shirts. Yet thousands of would-be entrepreneurs, business owners, academics, artists, celebrities, and journalists have walked through his apartment at the Ogden. Initiation into the Downtown Project used to begin there. The tours usually included a ride on the Delivering Happiness bus he’d bought when he was promoting his book. They ended with a pub-crawl. Hsieh would do shots of Fernet Branca, a bitter Italian liqueur, and talk about the once-in-a-lifetime chance to fix a city. “The big bet is that it will lead to happiness, luckiness,” he would say. “We’re maximizing long-term ROC and ROL, return on collisions and return on luck. We’re accelerating serendipity.”

Hsieh usually says his motivation for wanting to turn downtown into a modern workers’ paradise is practical—more than half the world’s population lives in urban areas. He also had a personal motive: “I want to live where there are places I enjoy hanging out in and people I enjoy being around.” Now →

he describes the Downtown Project's brand as "TED + SXSW + Burning Man, but as a lifestyle instead of as an annual event."

"He has created the most incredible marketing I have ever seen," says Las Vegas Mayor Carolyn Goodman. "I love Tony's spirit. It's fun to watch him."

Hsieh's goal, at first, was to amass 10,000 more residents in an area where about 20,000 already lived. It was a figure he'd settled on after reading *The Triumph of the City* by Edward Glaeser, a professor of economics at Harvard. Glaeser argues that urban density is essential for innovation. To build excitement about downtown, Hsieh flew in friends, gave interviews, and spent money. If he met someone he liked, he invited them to visit. When Amanda Slavin arrived in Vegas in 2011 after talking with Hsieh at a conference, she says, Hsieh didn't remember her. A few months later they were friends, and he agreed to invest in an events company she started, CatalystCreativ. The Downtown Project was her first client.

Connie Yeh and her husband, Don Welch, visited in the spring of 2011. They were traders at Citibank in New York, looking for a chance to do something meaningful. Yeh is also Hsieh's first cousin. "Tony asked us, 'What would it take for you to move to Las Vegas?'" Welch says. Yeh told her cousin she was interested in education. Hsieh said he would fund a project. Yeh opened a private school where the teaching is based on the latest neuroscience research and the focus is on entrepreneurship. Twenty-nine kids, the oldest in kindergarten, are enrolled at the 9th Bridge School. Tuition is \$15,750.

"I had a passion for small business," Welch says. Hsieh gave him \$50 million to invest. "When I heard the amount, I thought, 'Oh, s---,'" Welch says. He had no experience running a business or investing in one. "But in the last three years, I think I've gotten 30 years of experience." Hsieh gave Welch little guidance. "Don built a team. I don't know the details of how they interact or vet investments or negotiate," he says. "I trust him. I guess I tend to fall in love very easily—not in the romantic sense."

Welch and his group sorted through more than 2,000 proposals to find about 50 businesses to support. The founders receive no-interest loans, usually a couple of hundred thousand dollars, though sometimes more, and salaries. After they pay back the loans—a largely theoretical proposition so far—they split any profit with Hsieh. The Downtown Project has helped open bars, clubs, and restaurants, some run by chefs who used to work on the Strip. There's a gourmet doughnut shop, a gluten-free pizza place, a sushi bar, a juice bar, a high-end clothing store, and a members-only dog park. Recently a yoga studio, a florist, and a bookstore opened. A bar and one of the two co-working spaces have already closed. "Business is tough," Welch says. "Just because not all of them have gone out of business doesn't mean they're all killing it." In the layoffs, Welch lost two of the four people in his group, including someone he'd hired a month before. "When business pivots, it pivots," he says. Afterward, the remaining Downtown Project staff moved into the defunct co-working space.

Zach Ware helped oversee Zappos's move into the old City Hall. Then Hsieh put Ware in charge of the Vegas Tech Fund, giving him \$50 million to invest in tech startups or companies that wanted to relocate to Vegas. Zirtual, a virtual executive assistant service, moved its headquarters from San Francisco to Las Vegas. Order-WithMe, which allows small businesses to get better deals from suppliers, relocated from China. They, along with Digital Royalty, are doing well enough that Hsieh announced he will give them more money and advice. Early on, Hsieh invested in Romotive, which builds small personal robots. The company was such a success that its founders had to move to the Bay Area; Las Vegas didn't have enough tech talent. Ware spends most of his time now as CEO of Shift, a car- and bike-sharing network backed by Hsieh

and expected to start service in Las Vegas in 2015. The company got considerable attention in the spring of 2013 when it placed an order for 100 Teslas. It's not clear if Shift actually plans to buy all those cars. Ware said via e-mail that "focusing on our Tesla order is like focusing on the carpet in a Frank Gehry building." The Vegas Tech Fund also invested in Factorli, a small-batch manufacturing facility. President Obama visited the site in June. Two months later the fund shut down Factorli over concerns about the cost. When asked about other failed companies, Ware said: "If I quote statistics about which companies are not operating anymore, it's not an accurate reflection of how and why we invest."

"We're starting to understand what opportunities there are that could potentially both generate profitability and also a return on collision," says Maggie Hsu, who's focused on business development at the Downtown Project. "That's what makes us different from any other real estate company or hospitality company or food and beverage company." Hsu wrote Hsieh on a whim in the spring of 2013. After earning a degree from Harvard Business School, she'd taken a job at McKinsey and wanted a change. She didn't know Hsieh, but when she first visited, he gave her a crash pad and a list of 20 people to meet, first names only, no contact information. "At the time I didn't quite understand the methodology," she says. "What I think in retrospect was it was intentionally organic. It was back on me to build those relationships and see where I could best fit in." Her first project was implementing a self-organizing system of management called Holacracy that Hsieh also is using at Zappos. It's supposed to distribute authority across a company, not concentrate it in a few hands. There are no titles or hierarchy, but there's a 25-page constitution.

Hsieh bought the Gold Spike, an old casino and hotel, in the spring of 2013 for \$22 million. He'd recently brought on Michael Downs, the director of operations at the Bellagio and a friend for more than a decade. "I was hired to activate assets for the Downtown Project, to try to create some memorable guest experiences," he says. Hsieh gave Downs two weeks to turn the Gold Spike into a place suitable for work and play. Downs stripped the casino, except for the bar, and put in long tables with stools, lounge chairs, a bed, and oversize games. There's a bean bag toss in the middle of the room, Connect Four, darts, and a pool table. The backyard has hopscotch, fire pits, an Air-stream trailer, and a Tumbleweed, a miniature wood home on wheels. There's music, sometimes live, every night. The hotel rooms—officially called crash pads—are loud. Zappos and Downtown Project employees live on two of the seven floors.

"It's profitable," Downs says of the Gold Spike. "I'm

The outdoor mall is close to profitability "some months"



supermotivated by making money. It's one of the things I enjoy about my position." He also oversees the Container Park, an outdoor mall made up of shipping containers, created and owned by the Downtown Project. Music plays at festival volume. A 40-foot-tall metal sculpture of a praying mantis, once on display at Burning Man, stands at the entrance. Sometimes it spews 12-foot flames. A treehouse and slide occupy the middle of the park. "Very family-friendly," he says. "We're very, very close to being profitable, some months."

If there's ambivalence about downtown's revitalization, it's often because many of the businesses backed by the project seem to be run by newcomers. "It's as if this is a moving train. It's pretty nice and better than what we had before,"

says Michael Borer, an associate professor of sociology at the University of Nevada in Las Vegas. "But people aren't sure if they're just watching, or if they're allowed on. And if so, where do they get to sit?"

In the past two years a young man working for the project and two well-known entrepreneurs, including one featured in a *New York Times Magazine* story about Hsieh, committed suicide. Hsieh brought in a therapist for a time. Now there's a consultant who advises entrepreneurs. His company is called ROCeteer (ROC, as in Return on Collisions).

On many afternoons there are still more people in the lobby of the Golden Nugget casino and hotel, with its \$30 million swimming pool—and shark tank—than in downtown Las Vegas. Affordable housing remains scarce. Desks at the co-working space are available. People rarely have to wait in line at the grocery store or make a reservation for dinner. There's a lot of colliding with the same people over and over again.

At the far end of Hsieh's property sits Fergusons Motel. It was supposed to become a retail complex, with three taverns and boutiques in some of the rooms. But Paul Cline, who'd overseen its development during the past year, was let go in September. "They told me my position doesn't exist anymore," he says. "They were following a script that corporate America is using these days for layoffs." He estimates the project would have cost \$9 million in all. "I think their appetite for that doesn't exist now." Kim Schaefer, a spokeswoman for the Downtown Project, says: "We are currently evaluating the financials of this proposed project."

Downs says the Downtown Project is considering leasing some unused property to other developers. Hsieh would become a landlord, earning a return on investment if not collision. He says he doesn't think about the risk he's taken or the money he's spent. In any case, the value of his 60 acres has increased since he bought it, as has whatever Amazon stock he still owns. "I'm never going to be homeless," he says. "The consequences just aren't that bad. Twenty thousand years ago the worst-case scenario was that you get eaten by a saber-toothed tiger."

Hsieh quietly assumes his place in the front of a room at the Scullery, a restaurant and meeting place on the ground floor of the Ogden that Cornthwaite runs with Downtown Project backing. Hsieh is there to give what's essentially his marketing pitch to a dozen or so futurists from companies such as Walt Disney and General Motors. He's given it often: His reputation for turning an online shoe seller into a model employer ensures he gets crowds at business conferences and gatherings such as South by Southwest. Still, he looks uncomfortable: no hand-

shakes, no small talk. "When we first started, we thought we had to invest a lot in residential, we thought we had to build high-rises or lots of small spaces to get a return on collision," he tells the executives. Hsieh says he soon halved his goal of recruiting 10,000 residents, calculating that his people would be twice as collaborative as other people. He did some other math. "What is the value of a resident? If they stay home, they're not collaborating or contributing to the community. Someone like me, I'm out in a collisionable way three or four hours a day, seven days a week. So I'm worth about 1,000 collisionable hours a year."

Hsieh also came up with a way to calculate the value of people who "subscribe to downtown Las Vegas" but don't want to live there. He'd tried to persuade Jake Bronstein to leave New York in 2012. Bronstein is the founder of Flint & Tinder, which makes the 10-Year Hoodie and other clothes. Hsieh invested in the retailer and says Bronstein comes to Vegas one week every month. "We did the math on Jake. When he's here, he's out about 12 hours a day, 7 days a week, for 12 weeks a year. So he's worth 1,000 collisionable hours, too."

Hsieh began to apply this metric to investments that might not make money for a while. "Say we want 100,000 collisionable hours a year from an investment.

That works out to 2.3 hours per square foot per year," he says, with a slight smile. "If we're going to invest in a 3,000-square-foot restaurant, we can do the math and see if it yields that 2.3 hours per square foot per year. We're kind of agnostic about what goes into a space. It's 'are you going to yield those collisionable hours?' If not, we can say no without judging the quality of the idea."

Determining the number of interactions between people and their value had been Jorgensen's job. He was the collision scientist, until he was dismissed. "Tony has an understanding of how to build Zappos and DTP, but it's gut instinct," he says. "You put up a bar, and people drink together and become friends. We know that's how it works. I was trying to put some math behind it. But it was going to be a very big investment." Someone will have to find other ways. A recent public document from the Downtown Project says: "Goal: 10 million collisionable hours per year inside the llama footprint." Llamas are Hsieh's talisman; the 60 acres he owns roughly form the shape of one.

Hsieh has other measures of success. Back in his apartment, he says: "In the beginning almost everyone I ran into was someone who I or someone on our team had recruited." A year later, he says, 1 out of every 10 had come on their own. He hopes that by the end of five years, at least 50 percent of the people downtown will have moved there independently. What if that doesn't happen? "Then it's not going according to the five-year plan. It might take six years." Hsieh says downtown Las Vegas will eventually be all that he imagines. "But there are some places where it takes 20 years," he says. "I don't want to wait that long."

A few weeks later, in mid-November, a group of downtowners volunteered to move into some Airstreams that Hsieh had bought earlier. It's a beta test to see if they can evoke the spirit of Burning Man in an unused parking lot downtown. There's a community kitchen and a nightly campfire. The former collision scientist is in an Airstream. Hsieh has one, too. **B**

—With Patrick Clark

"Someone like me, I'm out in a collisionable way three or four hours a day, seven days a week"