

# How Cities Navigate the New Economic Order

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Bruce Katz, Cofounder and Director, Nowak Metro Finance Lab  
PREA Spring Conference  
March 21, 2024

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Early Metro and City Winners

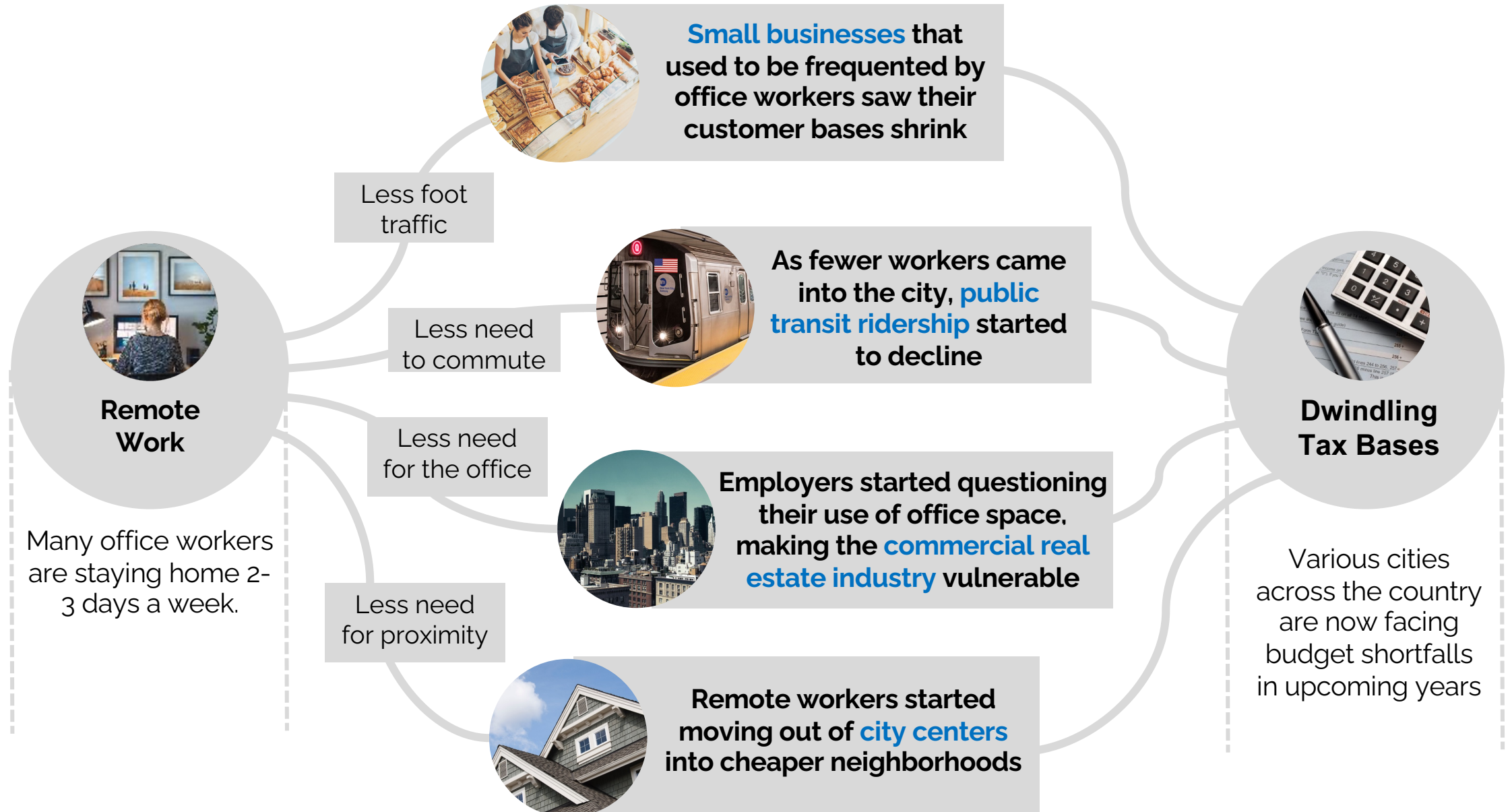
Navigating the New Economic Order

# “The New Disorder”



*“The pandemic, and now geopolitical upheaval, have taken the economy and shaken it up like a snow globe. The flakes will eventually fall – there will be a new equilibrium – but things may be arranged differently when everything settles.”*

# Cities have particularly focused on the impacts of remote work





# Remote work has decoupled job growth and demand for office space

## Charts show how San Francisco's job market is unusually strong despite 'doom loop' concerns

Employed people in San Francisco



Chart: Adriana Rezal / The Chronicle • Source: [Federal Reserve Bank of St. Louis](https://www.frbstlouis.org/)

San Francisco is the second-most homogenous downtown in the United States, with more than **74% of its land area devoted to office** uses.

As of spring 2023, the city's **unemployment rate is at 2.7%**, which is well below average for the last several decades, but above the 2% from April 2019.

## Availability by Building Class in San Francisco (JLL, 2023)

Office Building Class	Total Inventory	Total Available Space	Availability rate
Class A	61,398,769	21,228,151	35%
Class B	22,707,688	8,264,622	36%
Class C	2,049,289	784,477	38%
Total	86,155,746	30,277,250	35%

# But bigger forces are also shaping city economic fortunes

“The CHIPS Act, along with the Inflation Reduction Act and its \$369bn in grants and tax credits for the rollout of renewable energy are **the most significant attempts to revive industrial policy** in the capitalist world since the aftermath of the second world war”

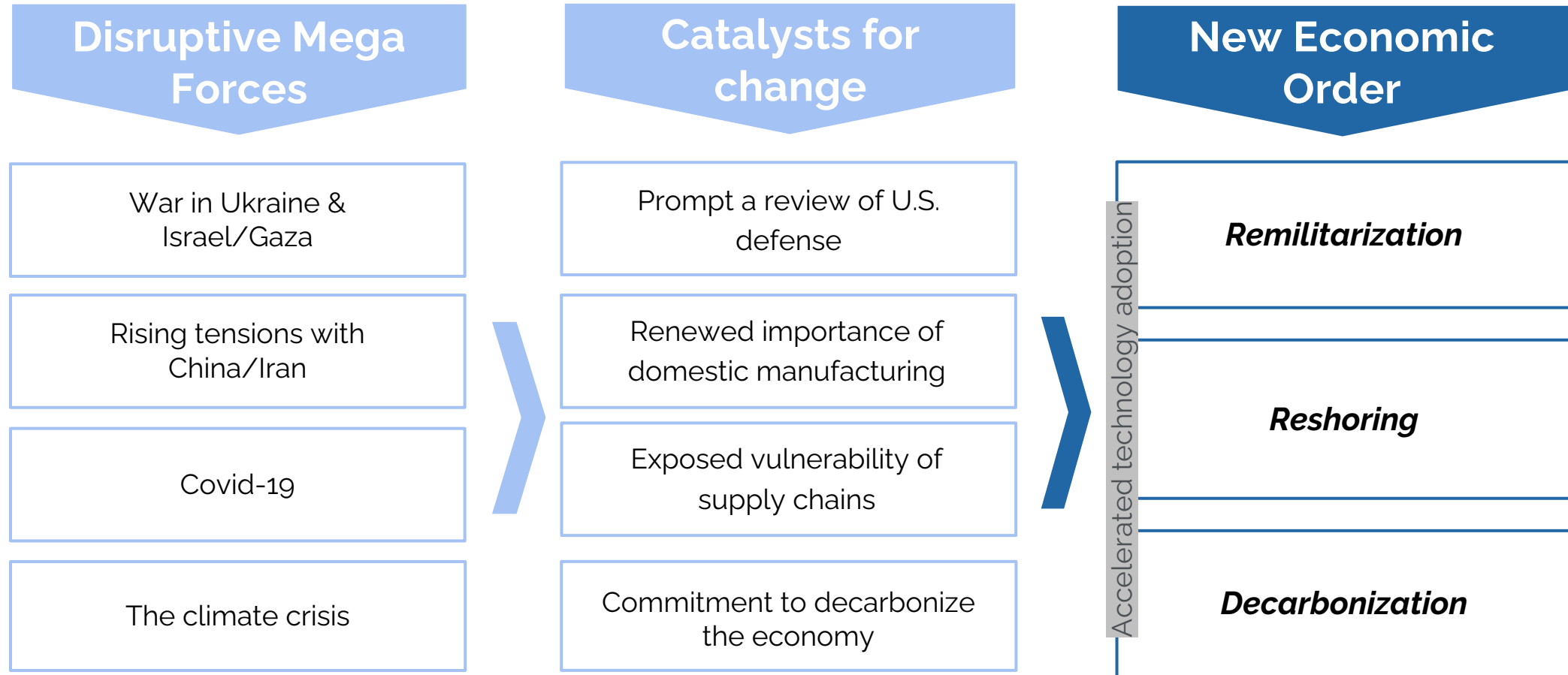
—Anne-Sylvain  
Chassany

Financial Times, March 5, 2023

—The Economist  
April 1, 2023

“America is accelerating its military containment of China in Asia, rejuvenating old alliances and creating new ones .... In commerce and technology, America is enacting a tough and widening embargo on semiconductors and other goods. **The goal is to slow Chinese innovation in order that the West can maintain its technological supremacy:** why should America let its inventions be used to make a hostile regime more dangerous?”

# These mega forces are creating a new economic order

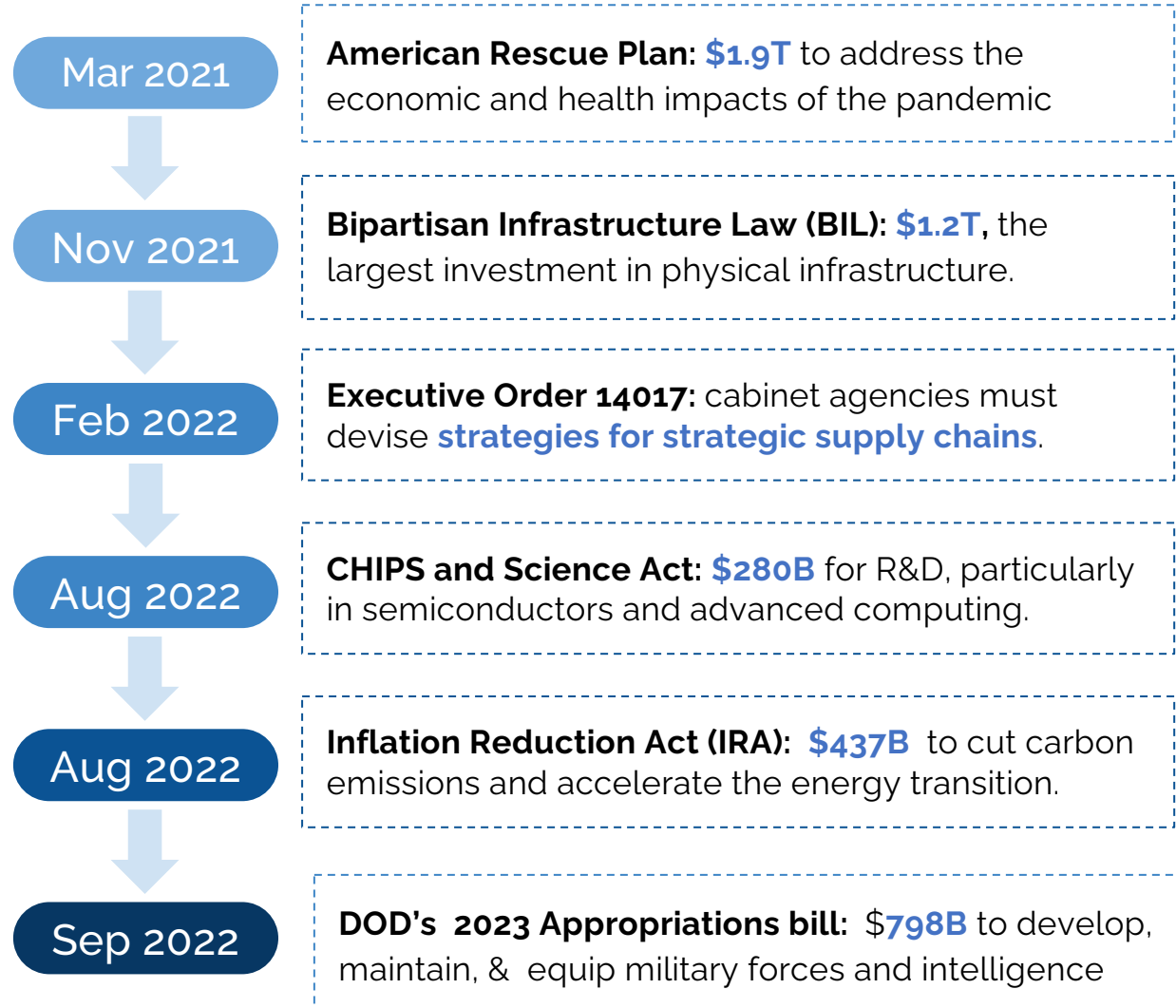


# The New Economic Order has been catalyzed by unprecedented federal spending rooted in modern supply side economics

"I will use the term **'modern supply side economics'** to describe the **Biden Administration's economic growth strategy**, and I'll contrast it with Keynesian and traditional supply-side approaches. [...]

Modern supply side economics, in contrast, prioritizes labor supply, human capital, public infrastructure, R&D, and investments in a sustainable environment. These focus areas are all aimed at increasing economic growth and addressing longer-term structural problems, particularly inequality."

**Janet L. Yellen,**  
**World Economic Forum, Jan 21, 2022**



To seize this opportunity is crucial to break away from the crowd and embrace a programmatic assessment approach.



# On top of federal programs, investments are being driven by a new kind of industrial federalism

## New Centers of Excellence



- **Detroit Center of Innovation, Michigan Central, and Wayne State:** \$100M *each* to advance research, innovation, and entrepreneurship

## Aggressive Manufacturing Incentives



- **Intel in Ohio:** \$1B+ incentives for Intel's new plant in Licking County (job creation tax credit; roads, sewage, and water projects)
- **Micron in New York:** \$10B Green CHIPS Bill to attract big manufacturers to the state

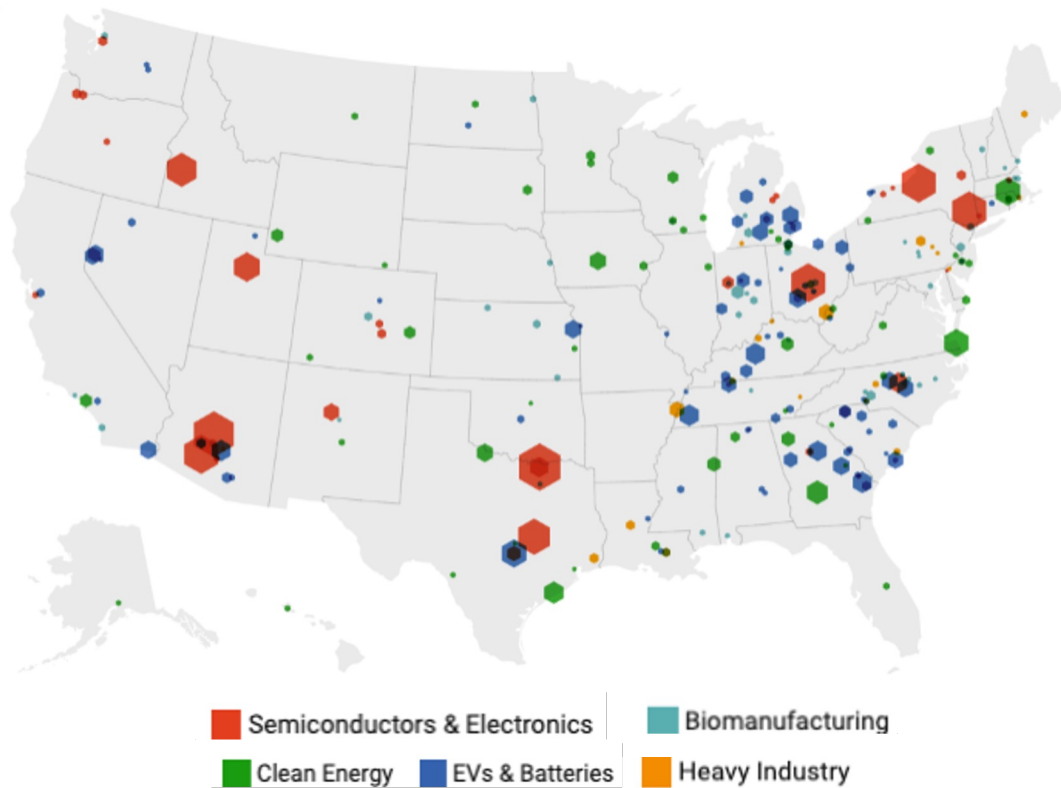
## Regional Economic Development



- **California Economic Resilience Fund:** \$500M Community Economic Resilience Fund for regional economic strategies
- **Connecticut Innovation Corridor:** \$100M for regional economic clusters
- **Indiana Regional Economic Acceleration & Development Initiative:** \$500M for regional strategic investments

# Macro dynamics and large public investments are creating a new industrial geography in the U.S.

Private investments during current administration in selected industries.



Public investments via IRA and CHIPS have spurred private sector investments of over **\$500 billion in hundreds of projects nationwide.**

These investments concentrate in industries that will boost U.S. competitiveness, strengthen supply chains, and help build a clean energy economy:

- **+\$230B** in Semiconductors & Electronics
- **+\$130B** in EVs & Batteries
- **+\$110B** in Clean Energy
- **\$20B** in Biomanufacturing

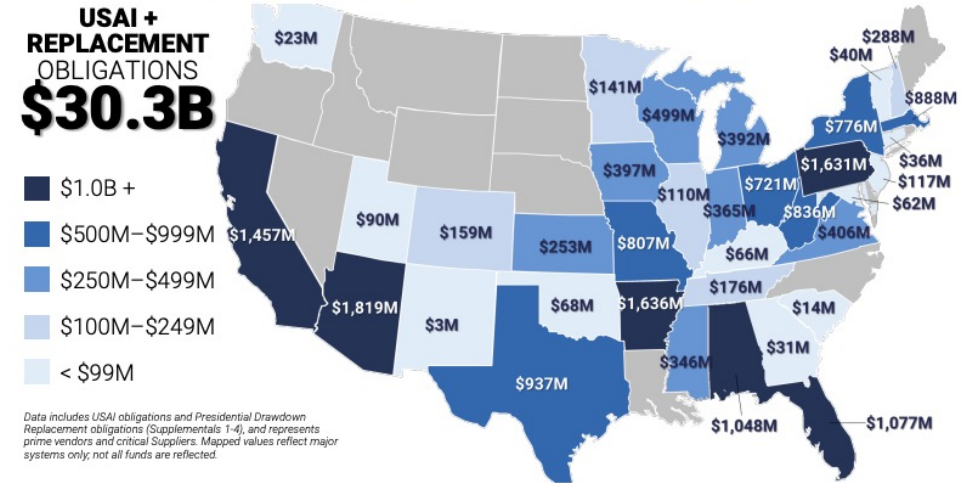
# The new industrial geography also includes growing defense production, which is tracked separately from manufacturing of civilian products

## Ukraine Security Assistance

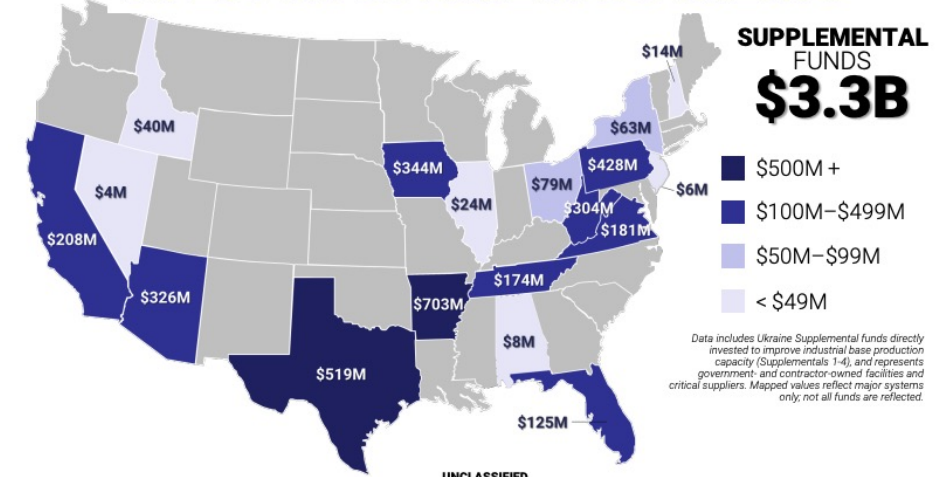
### Largest Submarine Industrial Base Suppliers by total dollar

State	Total Dollar (2022)	Number of Suppliers (2022)
California	\$5,312,763,422.87	160
Virginia	\$3,658,946,266.31	270
Pennsylvania	\$2,439,012,970.50	173
Ohio	\$1,809,052,898.54	91
Maryland	\$1,328,306,610.71	64

### INDUSTRIAL BASE IMPACTS



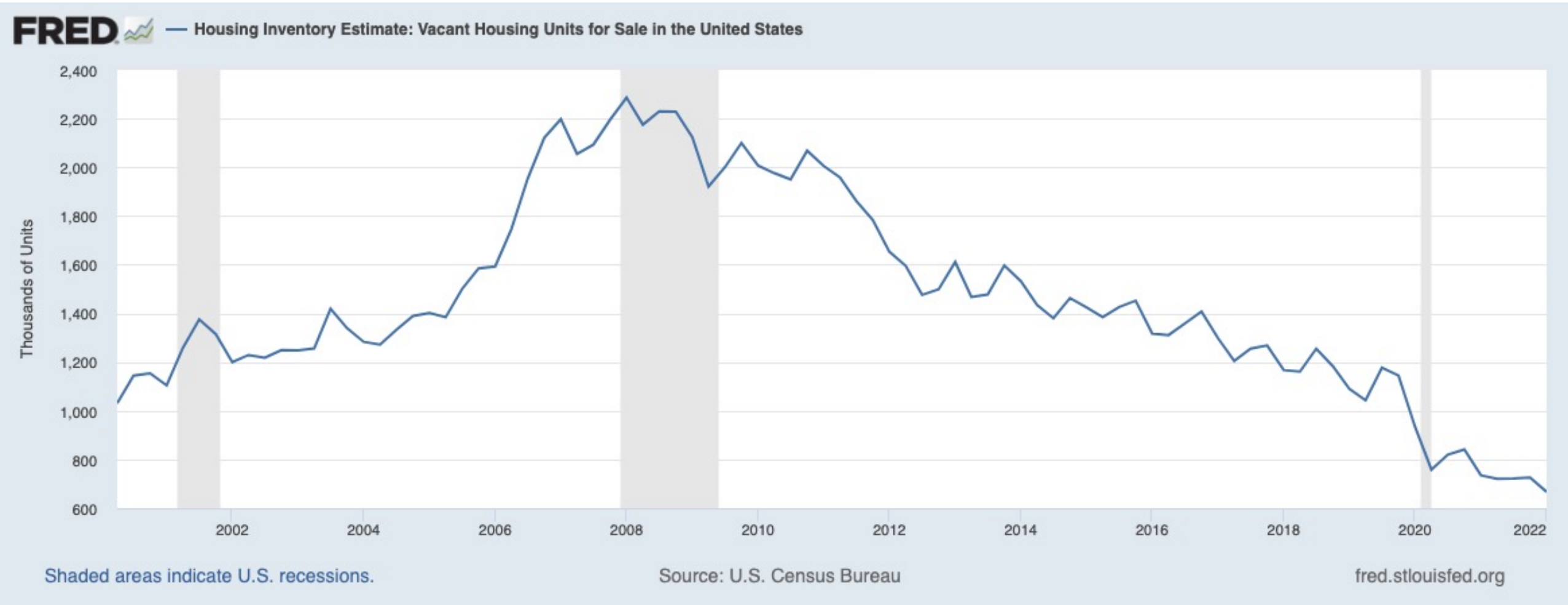
### DIRECT INDUSTRIAL INVESTMENTS



Source: Submarine Suppliers: <https://submarinesuppliers.org/wp-content/uploads/2022/02/US.pdf>

Ukraine Security Assistance Infographic: <https://media.defense.gov/2024/Feb/01/2003386207/-1/-1/1/UKRAINE-INFOGRAPHIC-15-JAN-2024.PDF>

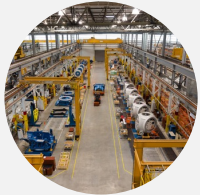
# The new industrial economy is booming, but is hampered by worsening housing affordability





# Federal spending and state resources need to be leveraged intentionally to address the commercial and residential real estate crises

Over-indexed on infrastructure, manufacturing, innovation, and climate policy



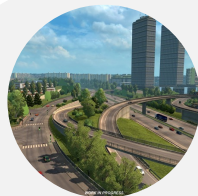
**Manufacturing**



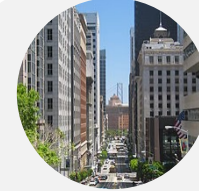
**Climate and Energy**



**Innovation**



**Infrastructure**



**Downtowns**



**Housing**



**Innovation Campuses**

under-indexed on downtowns, housing, and innovation campuses

# Contents

An Economy in Transition

**Early Metro and City Winners**

Navigating the New Economic Order

# Driven by macro forces and large public investments, a group of metros are staking a strong position in the changing economy

## Early metro winners:

These first movers:

- Have their assets directly aligned with shifting market dynamics or
- Are taking deliberate action to do so

### Military Metros



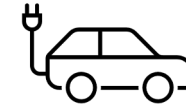
Defense spending is rapidly rising and will disproportionately benefit communities that have distinctive military assets developed over decades if not centuries.

### New Technology Hubs



The reshoring of production is happening fast in advanced industrial sectors that deploy sensitive technologies that the US must dominate for national security purposes.

### Climate First Movers



The energy transition touches every aspect of the modern economy, driving transformative changes in the nature and location of economic activities.

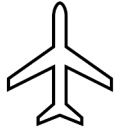
### Trading Powerhouses



Geo-political tensions are already altering global supply chains and driving a new intricate web of near shoring and friend shoring.



# Winning metros include St. Louis, Columbus (OH), New Orleans, and El Paso



## Military Metros



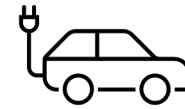
**St. Louis** stands out as a military metro with Scott Air Force Base, the National Geo-Spatial Intelligence Agency, and Boeing's presence, receiving \$11.4 billion in defense-related spending in FY 2021. St. Louis is actively leveraging its position to enhance regeneration in disadvantaged parts of the core city, drive or apply technological breakthroughs that have tradeable possibilities, and contribute to broader community development.



## New Technology Hubs



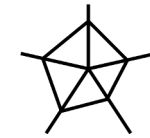
Metropolitan areas like **Columbus (OH)** have successfully attracted major semiconductor companies and related supply chain firms. \$20B Intel Plant in Ohio could become the world's largest chip plant



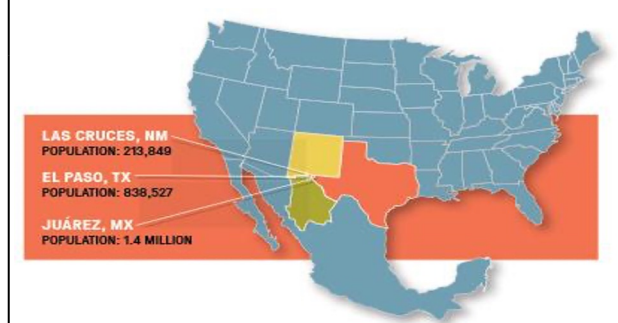
## Climate First Movers



As part of the Build Back Better Regional Challenge, the Biden administration awarded a \$50 million grant to a **New Orleans-led** initiative to turn south Louisiana into a hub of "green hydrogen" activity. It seeks to bring in historically Black colleges and universities, tribal colleges and universities, and minority serving institutions to spur research for each winning project.



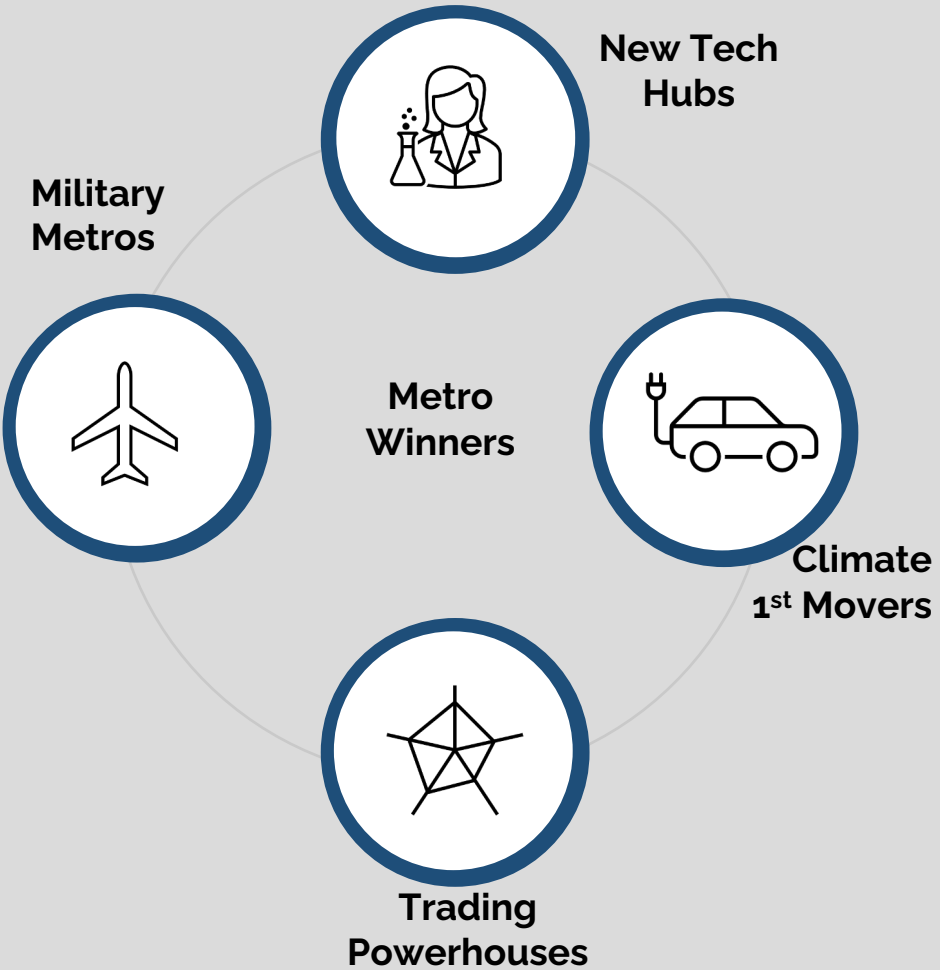
## Trading Powerhouses



The **Borderplex region**, encompassing Juarez, Mexico, El Paso, Texas, and Las Cruces, New Mexico, exemplifies this shift, boasting the fifth-largest manufacturing hub by employment in North America and accounting for 17% of all trade with Mexico. This bi-national metropolis is transitioning from resource extraction to diverse sectors, including food, clothing, electronics, medical equipment, aerospace, and defense production.



# Common Trends Across Metro Winners



## Clear sense of economic position

Metro winners conduct a thorough assessment of their local economic environment, encompassing competitive advantages, federal assets, R&D capabilities, infrastructure, industry hubs, supplier networks & workforce development pools



## Strong project-focused collaboration across public, private and civic sectors

Metro winners promote collaborative efforts involving investors, utilities, manufacturers, local and state officials, and philanthropy to attract investment.



## Well resourced business/civic leadership groups

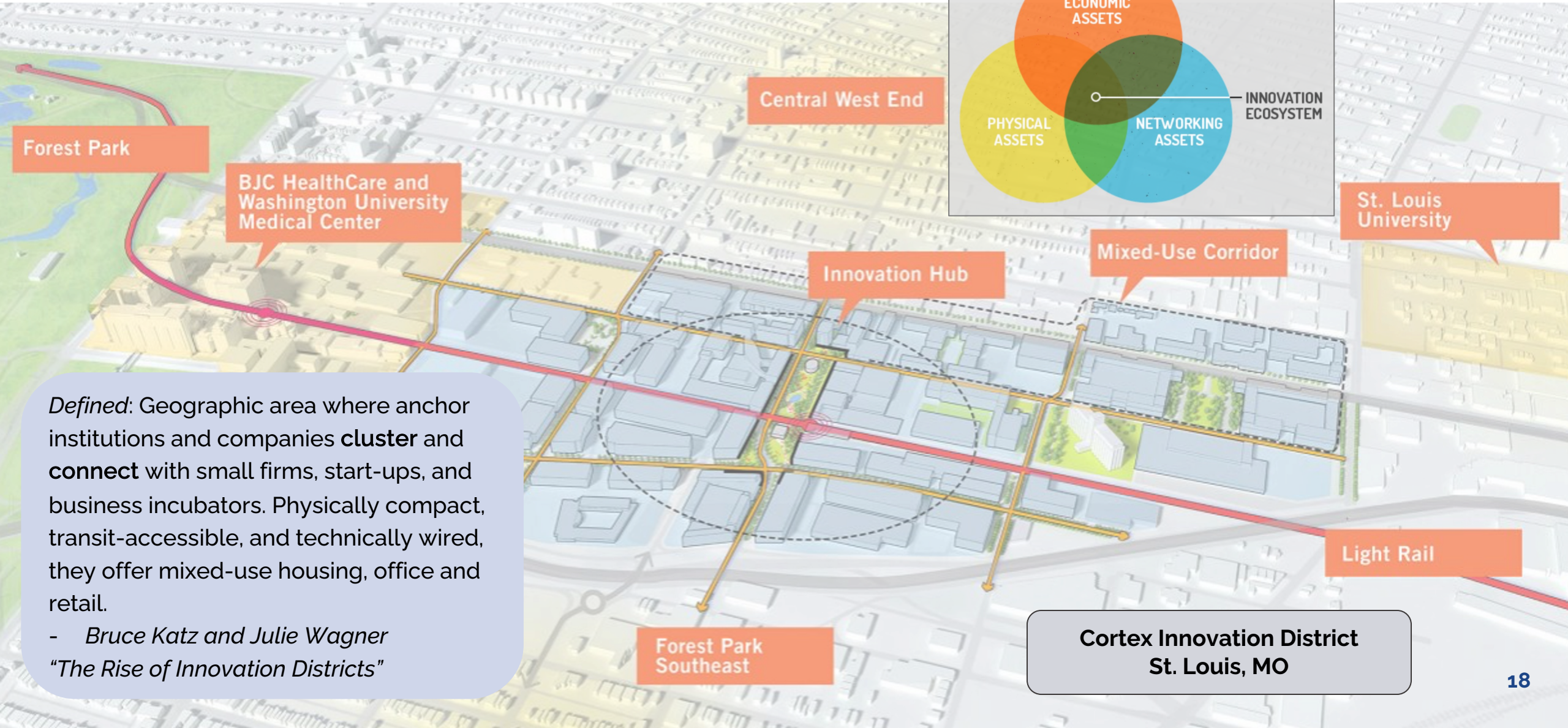
Metro winners invest in organizations that support their region's transition, emphasizing local projects with significant impact.



## State engagement and backing

Metro winners benefit from states that support productive projects by offering financial incentives, streamlining regulatory processes, investing in infrastructure, fostering collaboration with diverse stakeholders, and providing access to state-level resources and programs.

# Macro dynamics and large public investments are also valuing innovation districts



Forest Park

BJC HealthCare and Washington University Medical Center

Central West End

Innovation Hub

Mixed-Use Corridor

St. Louis University

Light Rail

Forest Park Southeast

Cortex Innovation District  
St. Louis, MO

*Defined:* Geographic area where anchor institutions and companies **cluster** and **connect** with small firms, start-ups, and business incubators. Physically compact, transit-accessible, and technically wired, they offer mixed-use housing, office and retail.

- Bruce Katz and Julie Wagner  
*"The Rise of Innovation Districts"*

# Macro dynamics are driving a new wave of innovation districts both across and within metros

## Early city winners have districts focused on:

- Urban innovation hubs are leveraging federal funds to advance mixed-use districts
- Many hubs are located in midtowns

### Life Sciences



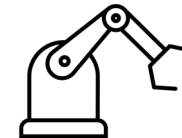
The COVID-19 pandemic accelerated the importance of innovation to advance healthcare and protect ourselves from biological threats.

### Defense Tech



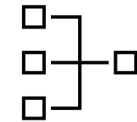
Rising tensions and wars across the globe mean that artificial intelligence (AI) and other advanced technologies are critical for militaries to meet the needs of modern warfare.

### Manufacturing



Unprecedented federal spending is fueling reindustrialization of the country to shore up domestic production and innovation in applied research and development.

### Multi-purpose



A small number of districts are generating technological advancements across multiple sectors.



# The new wave of innovation districts reflect the sectoral impact of macro dynamics



## Life Sciences



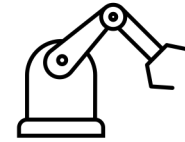
In **Philadelphia**, uCity Square is a leading life sciences hub with a high concentration of biotech, science, technology, and healthcare assets. The proximity of the district to top tier universities and biopharmaceutical companies has led to invaluable breakthroughs in gene and cell therapy and precision medicine. The investment made by Spark Therapeutics to locate a gene therapy innovation center on Drexel's campus is a prime example of smart use of university land for commercial purposes.



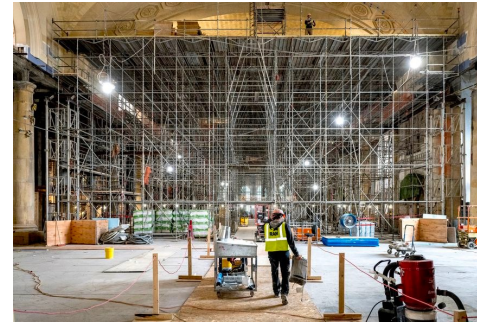
## Defense Tech



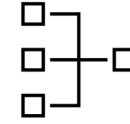
**San Francisco** is leveraging its existing tech talent to become the global AI hub. Many companies are locating in and around downtown, taking advantage of the exodus of Big Tech, office downsizing due to remote work, and declining rental costs for office space, and occupying former tech giant headquarters downtown or locating just west of downtown in Hayes Valley, signaling the start of an organic innovation district.



## Manufacturing



Michigan Central Station in **Detroit** and the surrounding neighborhood of Corktown is being transformed by Ford Motor into a mobility innovation district. Set to open in June 2024, the district will be a world-class location for innovators to develop, test, and implement new urban transportation solutions through an applied R&D model.



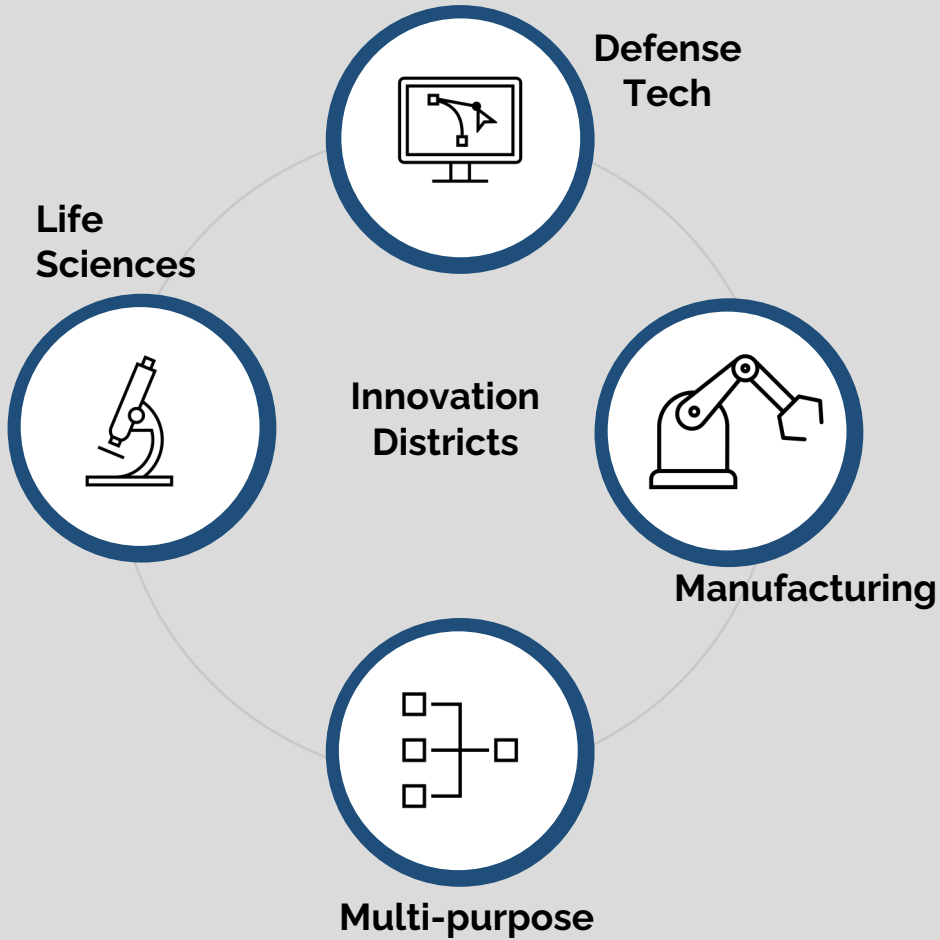
## Multi-purpose



Midtown **Atlanta** is a diversified district attracting people and organizations to conduct interdisciplinary research supported in part through Georgia Tech. The district is also home to startups, companies, and institutions focused on innovation in a variety of industries including health, technology, biomedical engineering, computing, and the environment.



# Common Trends Across Innovation Districts



## Strong universities

Universities with strong research and development programs can utilize innovation districts to facilitate tech transfer, especially by building close relationships with large companies, start ups, and scale ups.



## Radical collaboration

Similar to how cities are made up of networks, innovation districts are ecosystems of public, private, and civic stakeholders which work together on a broad array of challenges and opportunities.



## Strategic Land Use

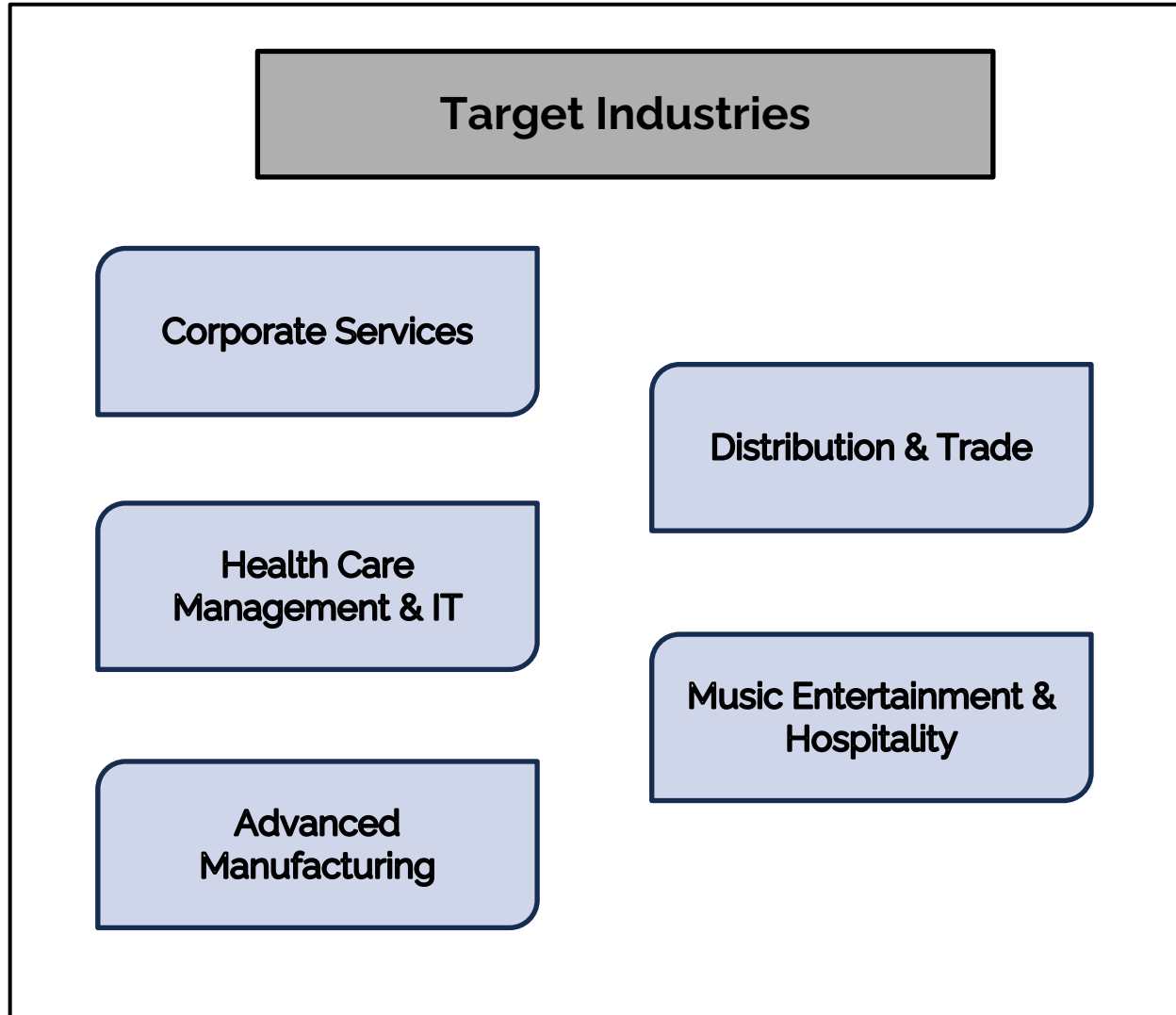
Innovation districts use land strategically for near-location of major companies, universities, tech intermediaries, and start ups and scale ups.



## Innovative capital stacks

Innovative ideas and projects often require creative capital stacks combining public R&D, private equity and state and local investments.

# Nashville is known for arts and culture, but has many other strengths that enable it to prosper in the New Economic Order



**The Tennessean: Greater Nashville area grew by 86 people a day in 2023, Chamber of Commerce says**

## Age: Nashville MSA

(Source: U.S. Census Bureau, American Community Survey, 2022 1-Year Estimates)

AGE GROUP	PERCENT OF TOTAL POPULATION
0-19	24.6%
20-34	22.2%
35-54	26.8%
55-74	20.9%
75+	5.5%

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# Cities need to adapt to these mega forces, understand their starting points and design and deliver strategies to maximize inclusive growth

*Metros can:*

- **Align federal investments** with distinctive aspects of a community
- **Layer investments** in same geography
- **Leverage** private, public, and civic resources

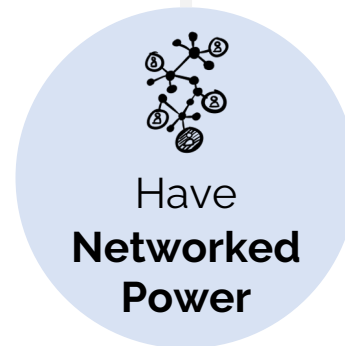


*Metros:*

- Have **disproportionate economic impact**
- Are on the **front lines** of economic shifts
- Have considerable **spending power**

***Metros can “think like systems and act like entrepreneurs”***

-Matthew Taylor, former head of the Royal Society of Arts



*Metros have:*

- **Multiple layers of power** and authority
- **Bring together** public, private, and civic leaders

***“Power is shifting*** downward from national governments to cities and communities; horizontally from the public sector to networks of public, private and civic actors; and globally along circuits of capital, trade, and innovation.

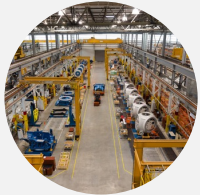
***New Localism*** is the twenty-first century’s means of solving the problems characteristic of modern life.”

-The New Localism, Bruce Katz and Jeremy Nowak



# Federal spending and state resources need to be leveraged intentionally to address the commercial real estate crisis

Over-indexed on infrastructure, manufacturing, innovation, and climate policy



**Manufacturing**



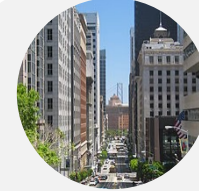
**Climate and Energy**



**Innovation**



**Infrastructure**



**Downtowns**



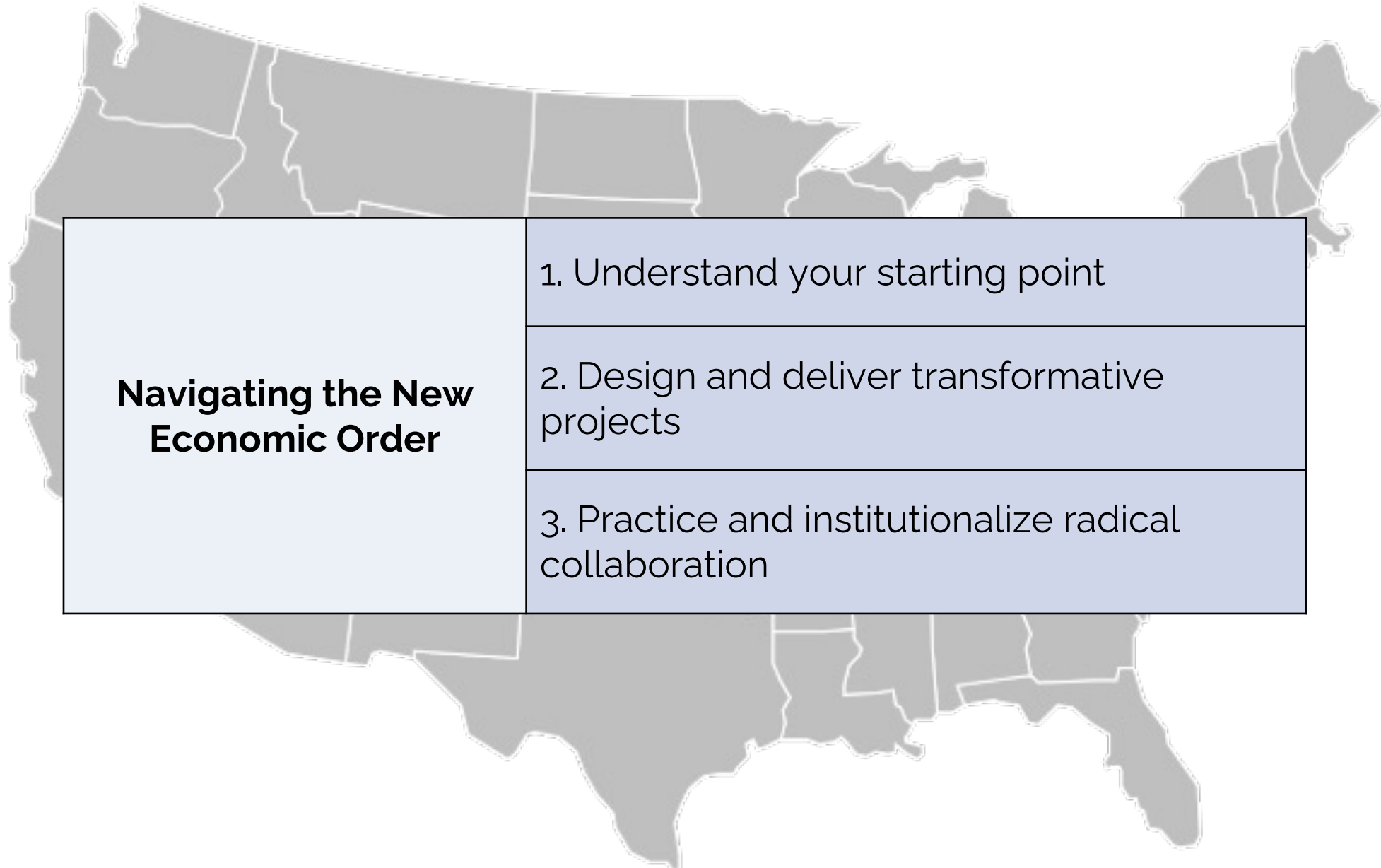
**Housing**



**Innovation Campuses**

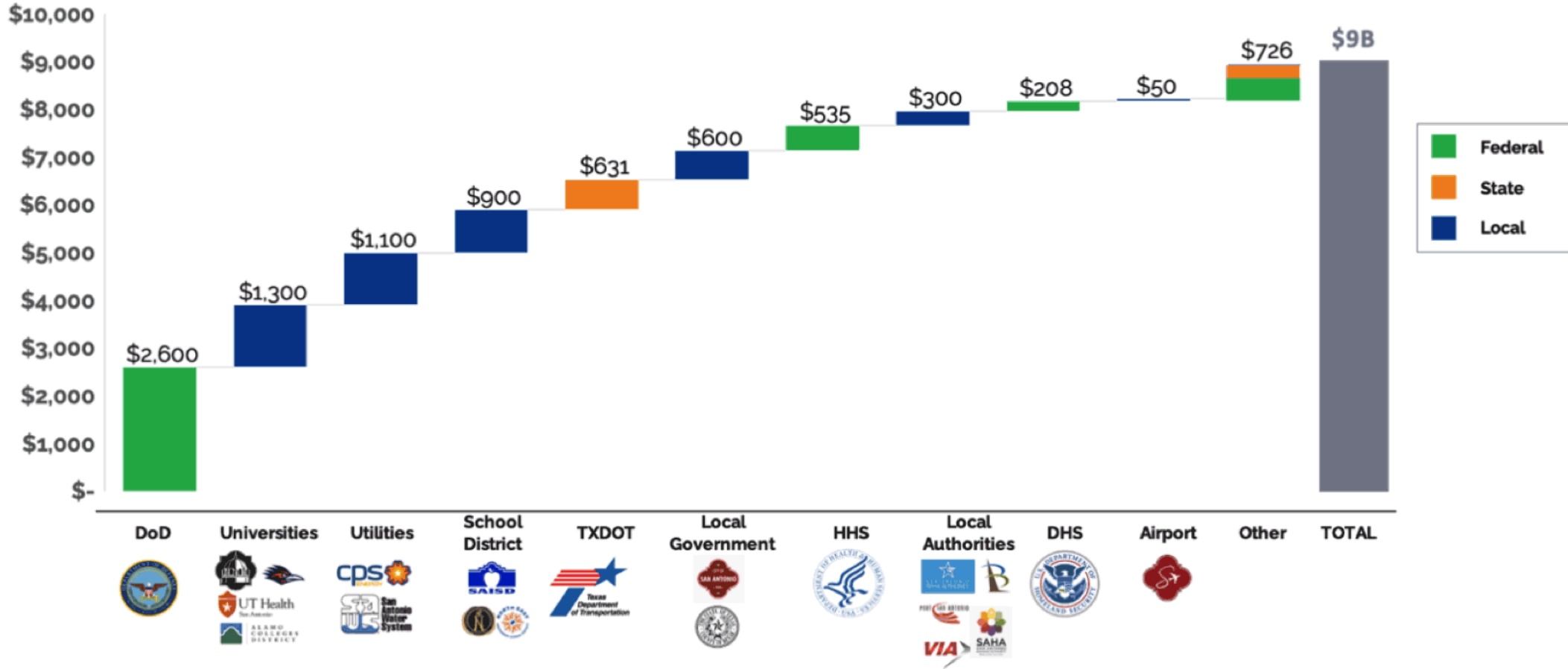
under-indexed on downtowns, housing, and innovation campuses.

# To mitigate the negative effects of remote work, cities need to enable diversification of uses for commercial real estate in downtowns



# 1. Understand your starting point in the New Economic Order

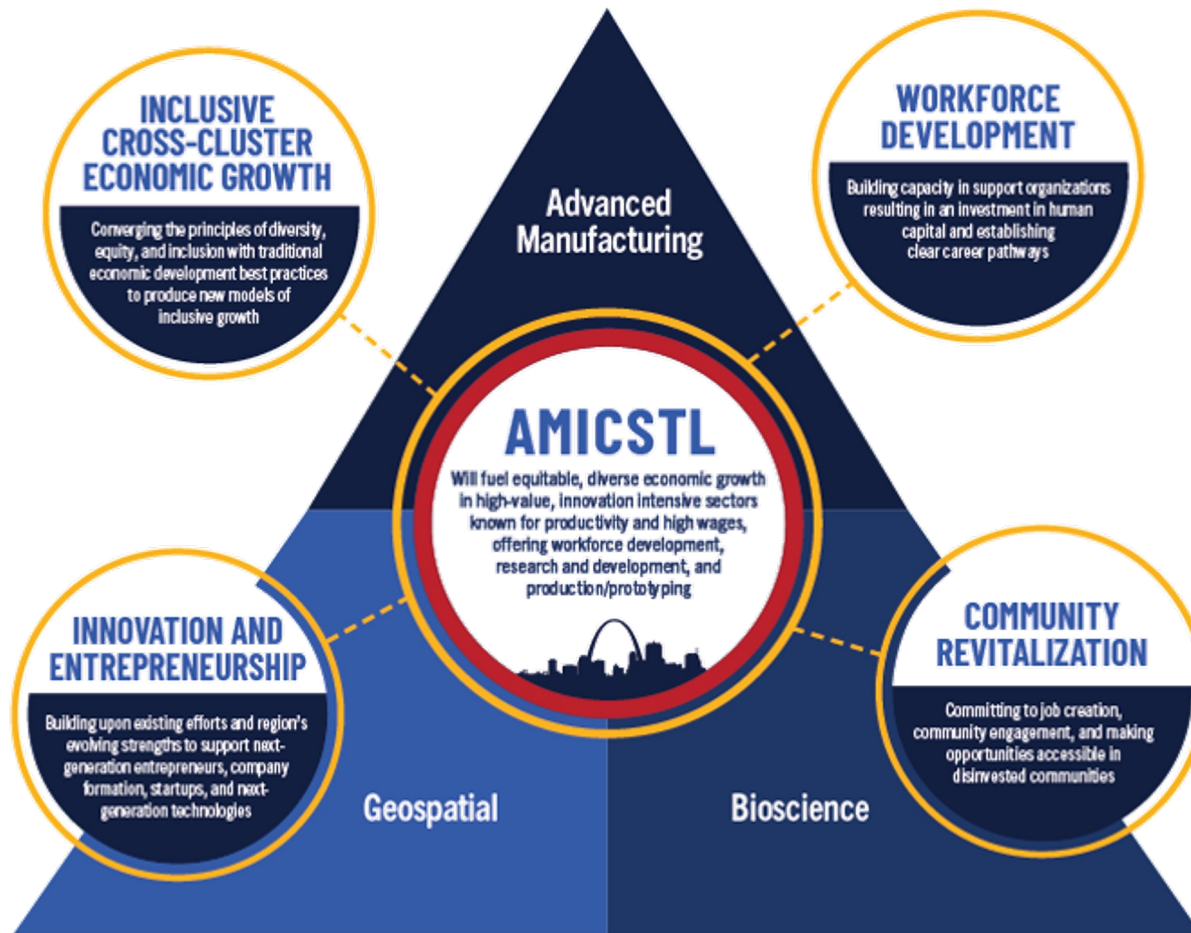
Public Sector Procurement Spending in the San Antonio Region by Agency  
(in Millions of Dollars)



In many metropolitan areas, defense spending dominates and could be leveraged to diversify use of space in urban cores.

## 2. Design and deliver transformative projects

### Advanced Manufacturing Innovation Center (AMIC) St. Louis, Missouri



The boom in advanced manufacturing demands new applied R&D hubs, many of which could be located in downtowns.



### 3. Practice and institutionalize radical collaboration



**GREATER  
ST. LOUIS INC.**



**COLUMBUS**  
PARTNERSHIP

Strong regional organizations can serve as a platform to bring together public, private, and civic stakeholders to set priorities and focus.

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## How Cities Can Thrive in the New Industrial Era

BY BRUCE KATZ · JANUARY 18, 2024

NEWSLETTER

*Note: This newsletter was initially published by Governing Magazine on January 17, 2024*

Fueled by macro dynamics and unprecedented federal investments, the reshoring of advanced manufacturing is happening at a pace and scale that would have been inconceivable even three years ago. As a result, in many respects the hierarchy of American metros is being reset. If the decade between the Great Recession and the pandemic seemed to be all about “superstar” tech cities, many of the winners in the remote-work era are going to be places that make tangible things.

Metropolitan areas such as Phoenix; Columbus, Ohio; and Syracuse, N.Y., are successfully attracting large semiconductor companies and the domestic and global supply chain firms that serve these advanced industries. Metros including San Diego; St. Louis; and Dayton, Ohio, which have large military bases, R&D facilities and production capabilities, are benefitting from expanded military spending. And a battery belt of next-generation automotive production is being created in real time.

## Newsletters

NEWSLETTER

BY BRUCE KATZ · JANUARY 18

NEWSLETTER

BY BRUCE KATZ, MICHAEL BELLES AND BRYAN FIKE · JANUARY 11

### Innovative Capital for Small Businesses: The Rise of Revenue Based Financing

Since we launched the [Innovative Finance Playbook](#) in November 2022, Catalyze and the Nowak Metro Finance Lab have been assessing Revenue Based Financing, or RBF, as a tool to help address the capital gaps and deficiencies laid bare by the COVID pandemic; namely, the [83% of entrepreneurs](#) who do not access traditional bank debt and venture capital. We recently released a report sharing our findings entitled “[The State of Revenue Based Financing and CDFIs](#).”

→

NEWSLETTER

BY BRUCE KATZ AND BRYAN FIKE · JANUARY 5

### Will 2024 be a Year of Financial Innovation?

The pandemic and post-pandemic period have been defined in many respects by capital. Beginning with the CARES Act and continuing with the American Rescue Plan Act, the Infrastructure Investment and Jobs Act, the CHIPS and Science Act, and the Inflation Reduction Act, this capital period has seen the federal government dedicate trillions of public resources for a broad set of activities, initially related to rescue and recovery (a focus on preserving existing businesses and communities) in 2020-2021 and then economic transformation (an industrial/energy transition of monumental proportions) in 2021-2023.

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# Thank you!

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