

# The Next Downtown

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# Contents

## **The Downtown Crisis**

An Economy in Transition

Early Policy Signals

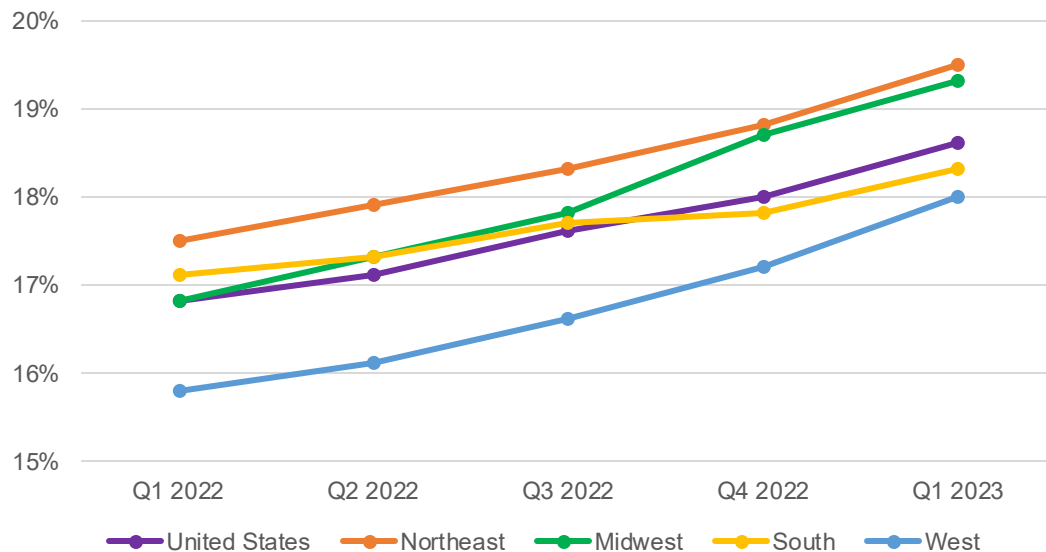
What Comes Next?

# Impacts of Remote Work



# Office markets have yet to recover from WFH policies—combined with inflationary rates and high costs, the commercial real estate industry could be facing havoc

Vacancy Rates Across Office Markets\*



***“MS & Co. analysts forecast a peak-to-trough CRE price decline of as much as 40% [this year], worse than in the Great Financial Crisis...commercial real estate, already facing headwinds from a shift to hybrid/remote work, [will have to] refinance more than half of its mortgage debt in the next two years,”***

*--Lisa Shalett, chief investment officer for Morgan Stanley Wealth Management, April 2023\*\**

\*Source: Cushman & Wakefield US Office Market Beat Report, Q1 2023

\*\*Source: <https://www.foxbusiness.com/economy/commercial-real-estate-market-could-crash-soon-heres-why>

# Ridership has fallen through the floor, with obvious implications for revenues and services

**In March 2020, public transit ridership plummeted. It still hasn't recovered.**

— Total US transit ridership per week (hover over the line to see week-by-week data)



Chart: Marina Bolotnikova / Vox • Source: American Public Transportation Association

**Vox**

***“BART has recovered just 40% of its ridership and faces disaster by early 2025 when federal pandemic funding runs out. If ridership doesn’t rebound significantly, the agency could be forced to stop weekday trains by 9 p.m., eliminate weekend service, close some stations, institute 60-minute wait times for trains and lay off staff.”***

*--Heather Knight, SF Chronicle*

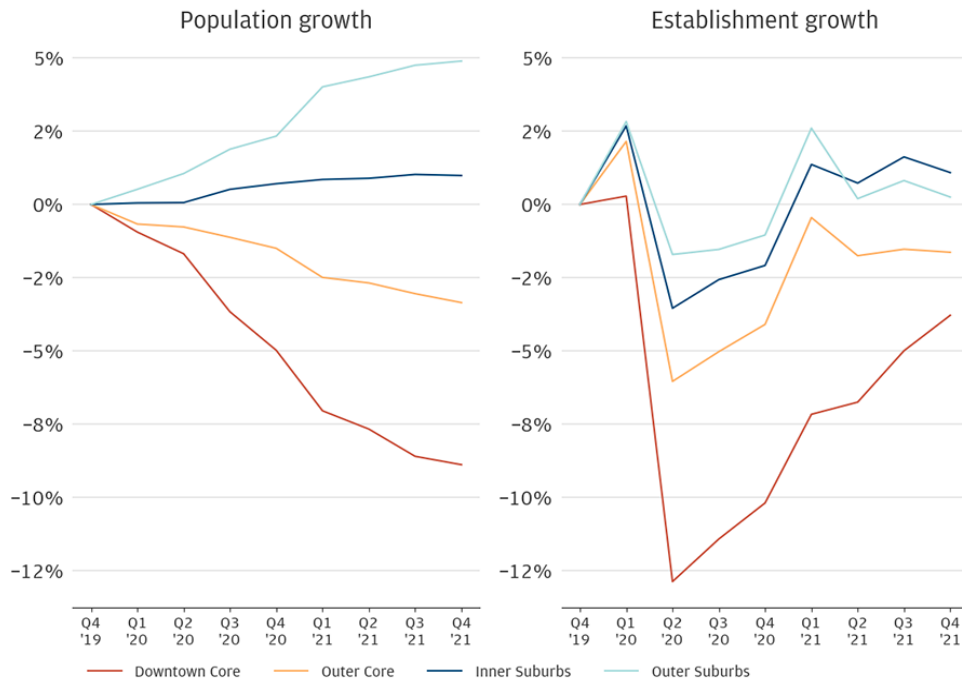
# On top of it all, downtowns are still struggling to recover pre-pandemic population or business levels—policymakers are now considering what may become new norms

*An analysis of 16 cities from JP Morgan Chase indicates that downtown cores have yet to reach pre-pandemic level of population and business establishments.*

***“The shape of the challenge for an economic development entity in a city is to now figure out what kinds of businesses are going to work here, what kinds of services are going to be needed in a place that has a different population trajectory,”***

*--Christopher Wheat, president of the JPMorgan Chase Institute, March 2023\**

Growth by location in metro area



Note: Scaled distance is calculated as the distance between the centroid of each ZCTA and the city hall of the principal city of its CBSA, then dividing this distance by the greatest ZCTA to city hall distance in the CBSA. City halls are used as proxies for the centroid of the central business district. We calculate growth relative to the same quarter in 2019 (e.g. growth from Q2 2019 to Q2 2021 and from Q3 2019 to Q3 2021).

Source: JPMorgan Chase Institute

# Metro economies with tax bases dependent on office property may be facing fiscal cliffs after federal aid ends



*In **San Francisco**, the Budget and Analysis Division and the Controller's Office of San Francisco **project a budget shortfall of ~\$780 million in the next two fiscal years**, and of \$1.3 billion in FY 2027-2028 without any corrective action.*



*In **Philadelphia**, the \$1.4 billion cushion from ARPA has been crucial to maintaining fiscal health—**without ARPA, the city was facing a \$1.5 billion budget gap over the last five-year plan.***



*In **Madison, WI**, the projected budget shortfall in 2023 was ~\$13 million. **By 2026, the projected budget shortfall is almost ~\$30 million.***



*In **Rochester, NY**, a gap for all funds of approximately \$88.8 million is expected for 2024-25. **This gap accumulates to \$156.3 million in 2028-29.***



*In **Houston, TX**, COVID-19 relief funds are being used to mitigate the **projected \$160 million spending deficit for 2024.***

# Contents

The Downtown Crisis

**An Economy in Transition**

Early Policy Signals

What Comes Next?

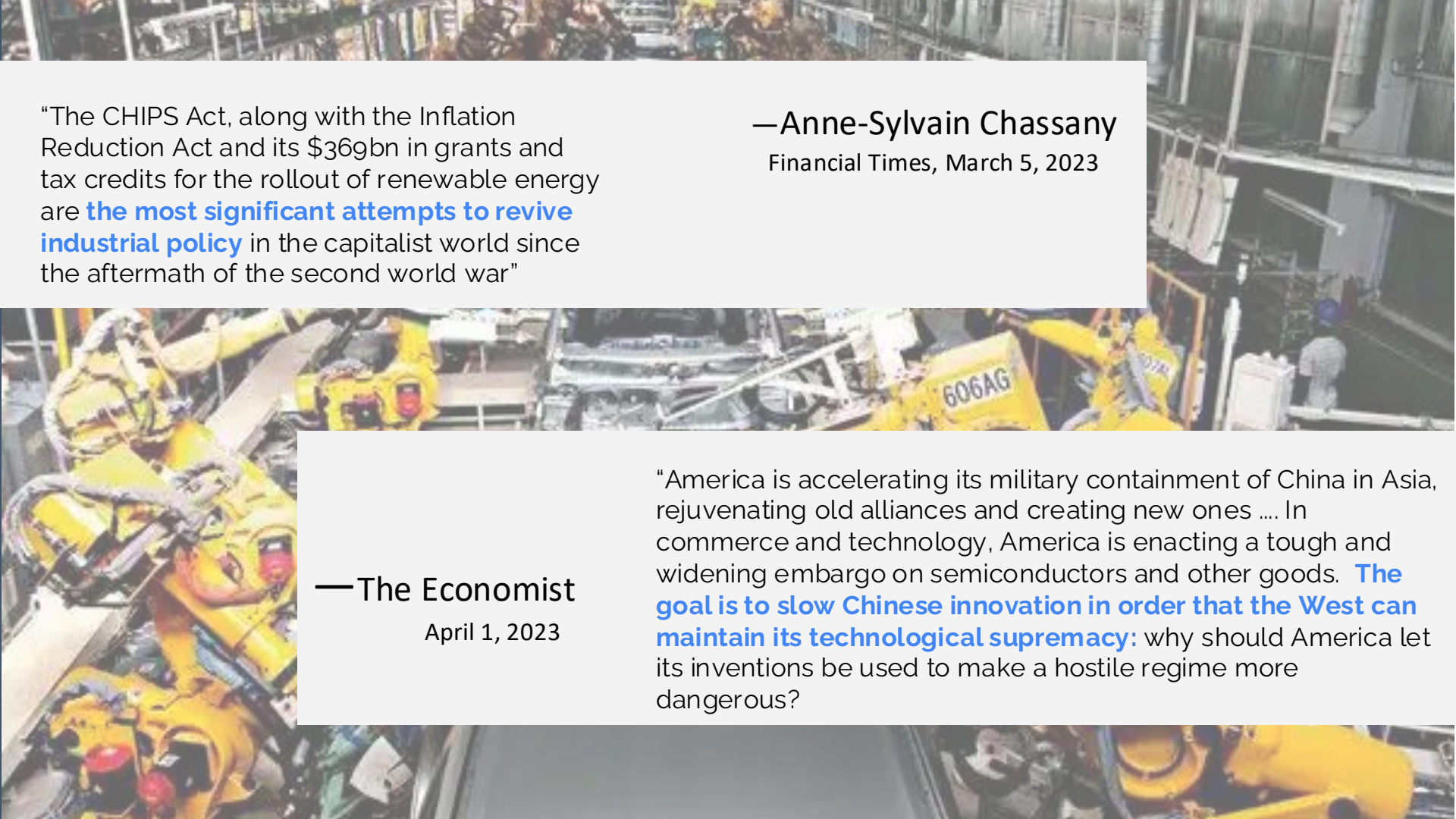


# "The New Disorder"



*"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."*

**Jeanna Smialek**, New York Times, March 25, 2022

The background of the slide is a collage of industrial images. The top half shows a factory interior with various machinery and structural elements. The bottom half is dominated by several yellow robotic arms, likely from a manufacturing plant, with one arm clearly marked with the code '606AG'.

“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

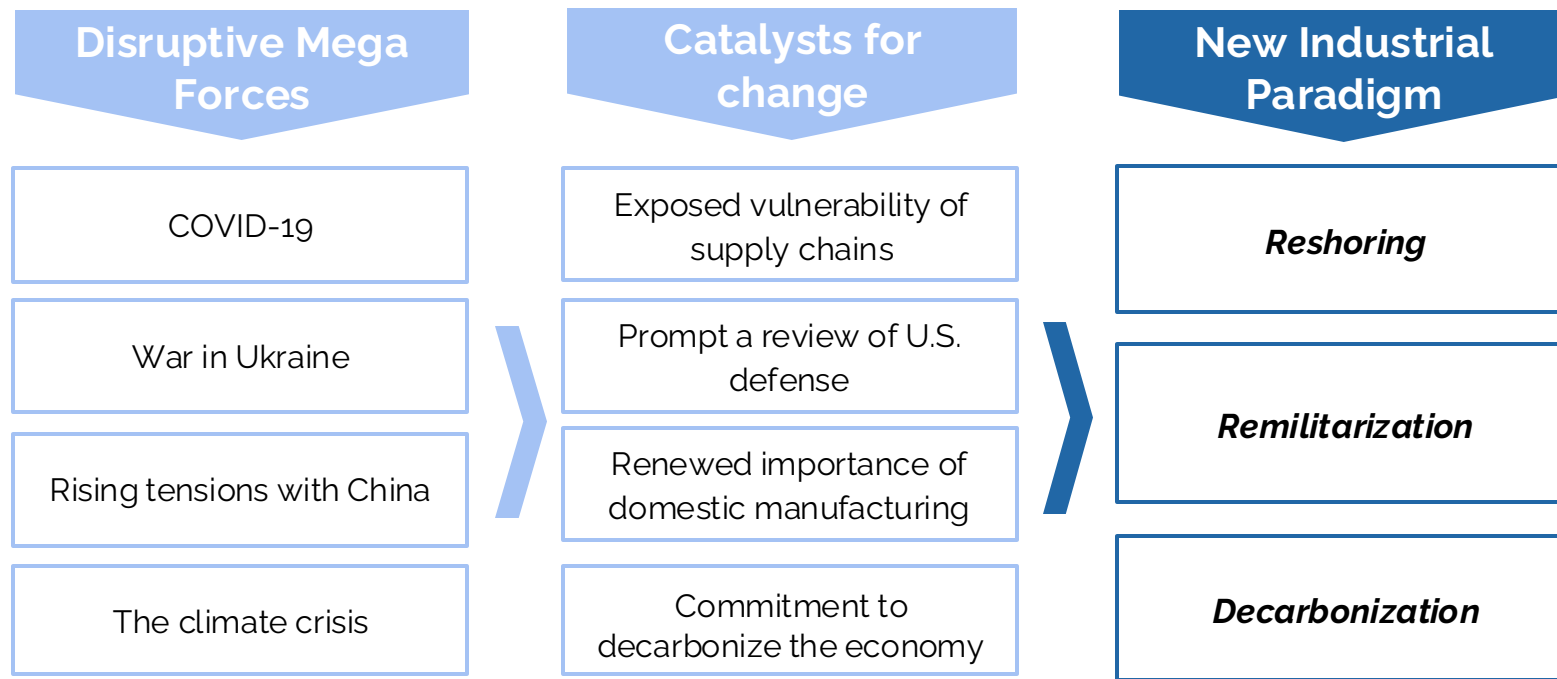
Financial Times, March 5, 2023

—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?”

# Some of these mega forces have catalyzed a fundamental shift in the prevailing paradigm

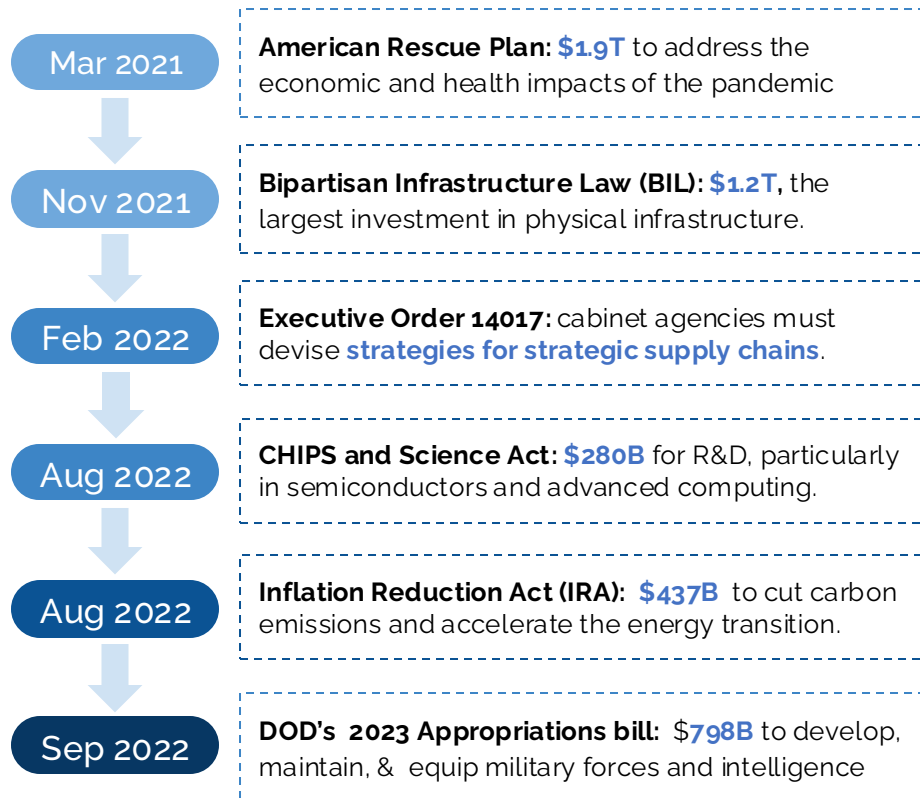


# The new paradigm has led to unprecedented federal spending for a competitiveness agenda centered in modern supply side economics

"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. [...]

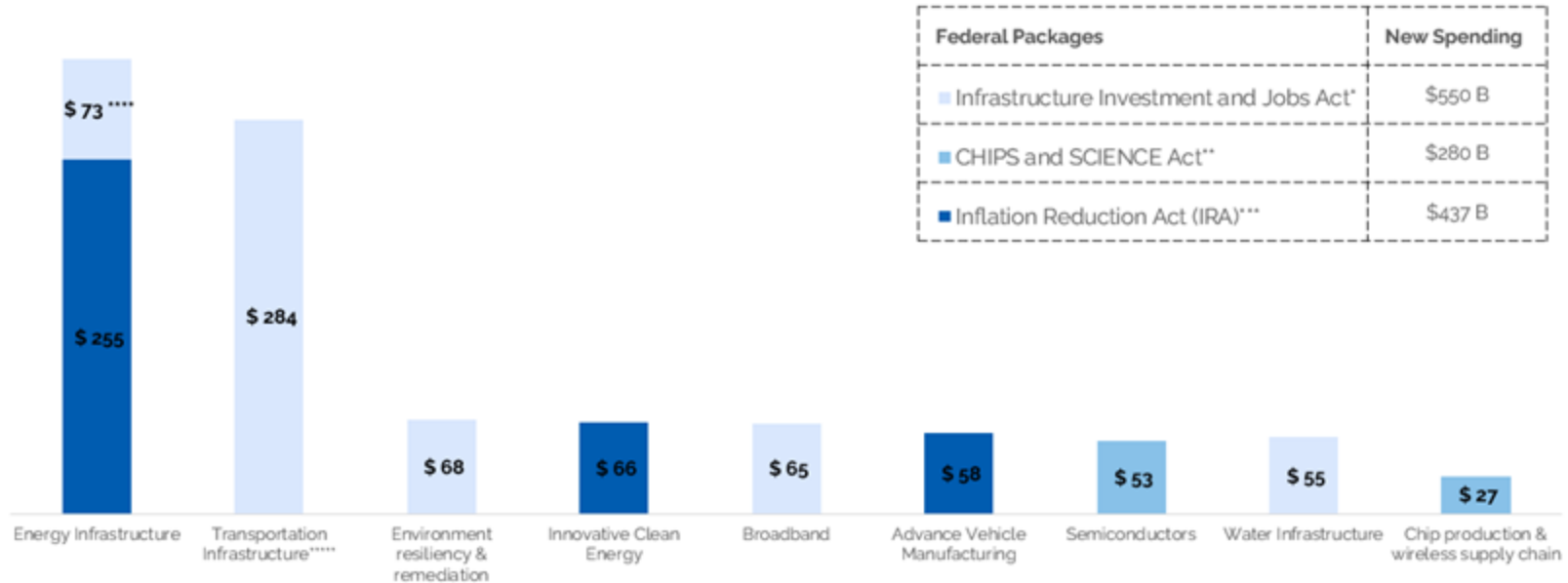
Modern supply side economics, in contrast, prioritizes labor supply, human capital, public infrastructure, R&D, and investments in a sustainable environment. These focus areas are all aimed at increasing economic growth and addressing longer-term structural problems, particularly inequality."

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



# These investments are targeting strategic areas, including energy, transportation, and manufacturing

**BIL, CHIPS Act and IRA spending for selected sectors.** In billions.



**Notes:** (\*) The BIL allocates an estimated \$1.2 trillion in total funding over ten years, but only \$550 billion in allocations is new spending during the next five years. (\*\*) This figure includes \$200 B allocated for scientific R&D and commercialization initiatives. (\*\*\*) The IRA is focused on clean energy, making investments across a wide range of sectors, such as energy (\$250.6B), manufacturing (\$47.7B), environment (\$46.4B), transportation and EVs (\$23.4B), agriculture (\$20.9B), and water (\$4.7B). (\*\*\*\*) Funds to upgrade power infrastructure and grid automation, including clean-energy technology. (\*\*\*\*\* The BIL has funding for roads and bridges; passenger and freight rail; airports, ports, and waterways; public transit; electric vehicles; safety; and reconnecting communities. **Source:** own elaboration based on [The Inflation Reduction Act Here's what's in it](#), McKinsey; [The US Bipartisan Infrastructure Law: Breaking it down](#), McKinsey; [The Inflation Reduction Act Here's what's in it](#), McKinsey; [The CHIPS and Science Act Here's what's in it](#), McKinsey.

# Several states are making major moves to take advantage of incoming funding and investments

## New Centers of Excellence



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

## Aggressive Manufacturing Incentives



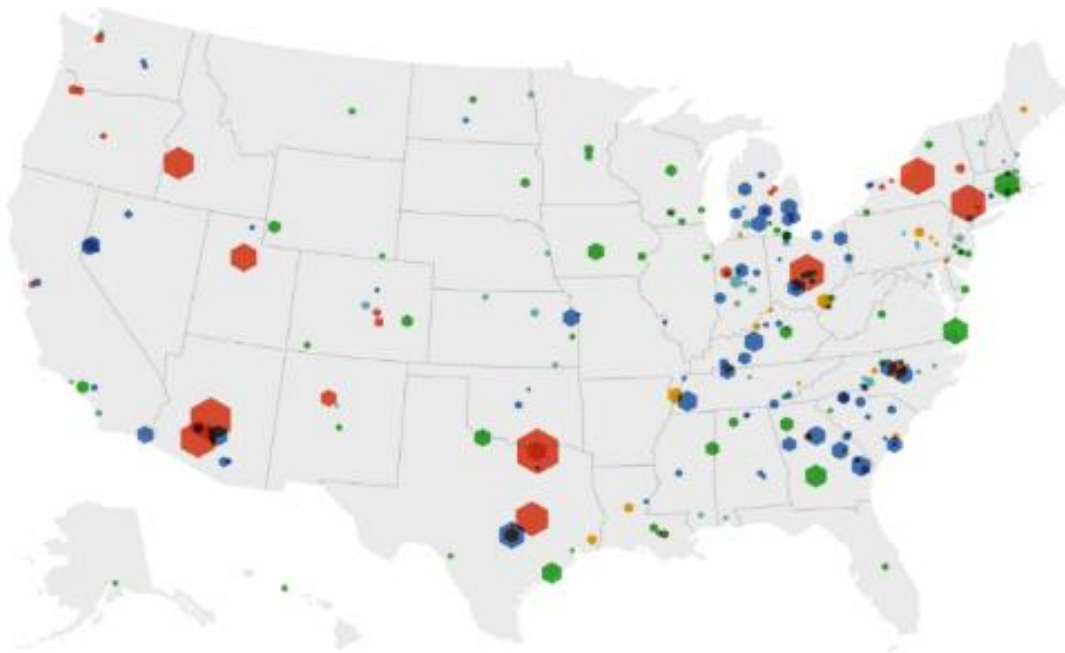
- **Intel in Ohio:** \$1B+ incentives for Intel's new plant in Licking County (job creation tax credit; roads, sewage, and water projects)
- **Micron in New York:** \$10B Green CHIPS Bill to attract big manufacturers to the state

## 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

This has resulted in a highly-distributed manufacturing boom across the country, following a decades-long trend of dispersed production in the United States



Private investment during current administration in selected industries



# Contents

The Downtown Crisis

An Economy in Transition

**Early Policy Signals**

What Comes Next?

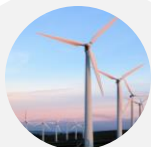


# Without comprehensive funding, cities need to be purposeful about leveraging federal and state resources for downtown

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



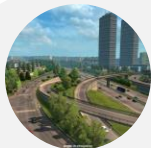
**Manufacturing**



**Climate and  
Energy**



**Innovation**



**Infrastructure**



**Downtowns**



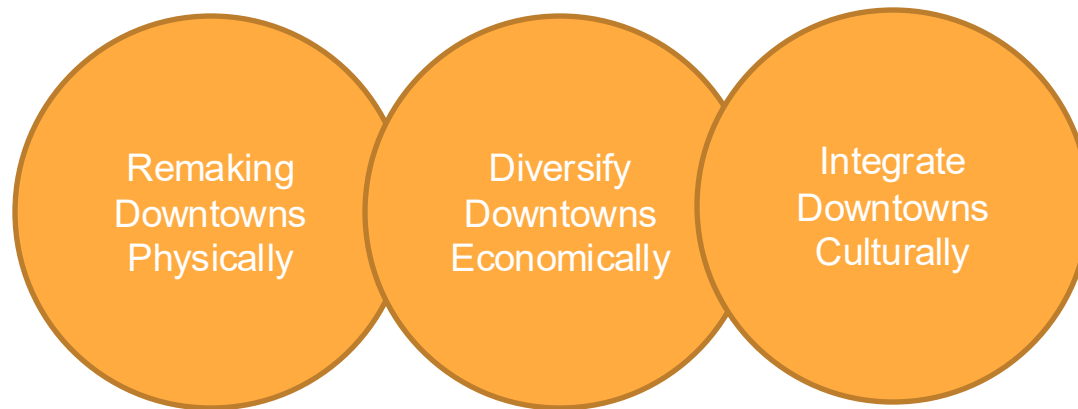
**Housing**



**Community  
Development**

— — — — under-indexed on downtowns, housing,  
and community development

# There are early policy signals from cities leveraging their distinctive downtown strengths through intentional investments and initiatives



Greater <b>Detroit</b> Downtown	Cuyahoga Riverfront Development in <b>Cleveland</b>	Infrastructure Investment in <b>Fresno</b>	Advanced Manufacturing Center in <b>St. Louis</b>	Procurement Playbook in <b>San Antonio</b>	Development of Sixers Arena in <b>Philadelphia</b>	<b>Erie</b> Downtown Development Corporation
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# Early signals from across the country: Greater Detroit Downtown



A group of leading corporations, developers, entrepreneurs, universities, philanthropies, health care institutions and local, state, and federal governments are -- separately and together -- **designing, financing, and delivering the next downtown.**

Detroit is deploying **five central strategies**, which can be adapted and replicated by downtowns across the country:

1. **Diversifying the economy** through conversion of office towers, relocation of innovative assets, and linkage across auto and other tech sectors.
2. **Unlocking the value of neglected parcels** (The Monroe Street Midway) to amplify the character of place and engage residents.
3. Creating a new **mixed-use, mixed-income, and equitably accessible hub along the Detroit Riverfront** that'll connect to downtown along a defunct rail line.
4. Embracing a proposed **innovation district** that already has committed tenants, such as the Michigan Israel Business Accelerator.
5. Demolishing Interstate 375 – a federally backed highway that bulldozed the neighborhoods of Black Bottom and Paradise Valley and divided the city – and **converting it to a boulevard.**

# Early signals from across the country: Cuyahoga Riverfront Development in Cleveland

***"Our redevelopment strategy for the downtown Cleveland Riverfront taps into the lost heritage of the city, **establishing a new relationship between the urban core and the shore.**"***

*-Sir David Adjaye*



Axonometric View of proposed Cuyahoga Riverfront Master Plan

Concept Rendering © Adjaye Associates

***"It won't just be a national model, but a global model for how to create equity," he said at Friday's press conference, "in terms of master planning, and **how to truly make sure our waterfront—and our riverfront—can be a model for the nation.**"***

*-Mayor Justin Bibb*

## Early signals from across the country: Infrastructure Investment in Fresno

***Fresno will receive \$250M in infrastructure money from California. Some key highlights:***

- \$70 million, would be used to provide **two new parking structures in the downtown.**
- \$80 million for overall **infrastructure investments aimed at promoting the development of housing for 10,000 residents** and revitalizing neighborhoods in downtown
- \$25 million for a **stormwater drainage basin in the downtown area**



***"Far too long Fresno has been left behind, as has the Valley...This is the largest investment we will have ever received from state of California, and **it's all going into downtown Fresno**"***

*-Mayor of Fresno, Jerry Dyer*



## Early signals from across the country: **Advanced Manufacturing Center in St. Louis**

The St. Louis Tech Triangle, a corporate-created innovation district recently won \$25M from the Build Back Better Regional Challenge to promote advanced manufacturing and build out the 130,000 square-foot **Advanced Manufacturing Innovation Center**.

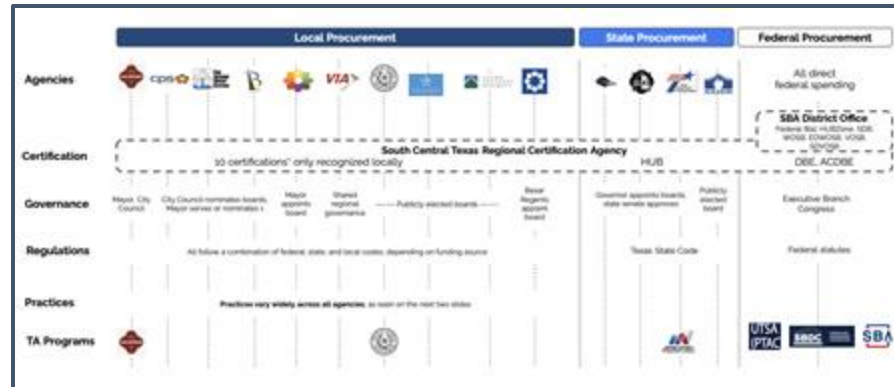
Centers like these are emerging across the country to **reshore production**.



# Early signals from across the country: Procurement Playbook in San Antonio

Public contracting is one vehicle through which minority-owned enterprises (MBEs) can grow their customer base and scale. We seek to identify user (firm) centric strategies that will support a stronger presence of MBEs in sectors ripe for contracting, maximize MBE participation in the entire public contracting ecosystem, and grow the number and size of B2G MBE firms in the U.S.

Local Procurement														
Agency	CPD	CPD	CPD	CPD	VIA	CPD	CPD	CPD	CPD	CPD	CPD	CPD	CPD	CPD
Supplier Diversity Practices														
Preference goals	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Unbundle contracts	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Conduct disparity studies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Aspirational goals	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Subcontracting goals	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Vendor-Facing Practices														
Independent vendor portal	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Conduct vendor outreach	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Use NAICS industry codes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Data, Reporting & Transparency Practices														
Report DMBE spending	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Public purchasing forecast	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Public vendor directory	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Track subcontractor data	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓



## Early signals from across the country: Proposed 76ers Stadium in Philadelphia

The Sixers, after looking at potential sites for two years, recently announced the Fashion District of Philadelphia, as its proposed site for the 76s arena. This area has largely been neglected and was declining in foot traffic even before the pandemic.

The new arena would bring opportunity to stimulate activity and can draw on the site's transit-rich location and potential to redevelop an existing commercial space.





# Early signals from across the country: Erie Downtown Development Corporation



**EDDC**  
ERIE DOWNTOWN  
DEVELOPMENT  
CORPORATION

## Our Goals



Developing commercial and residential real estate



Attracting businesses, residents, and additional investment into downtown



Supporting and enhancing the public spaces



Creating programming, especially events & activities that entice people to live downtown, support local business and create vibrancy

**EDDC formed in 2017 and brought together business, philanthropic and community leaders to transform the city of Erie's downtown core and spark revitalization across the region. Institutions like this will be fundamental in organizing and strategizing downtown revitalization**

# Contents

The Downtown Crisis

An Economy in Transition

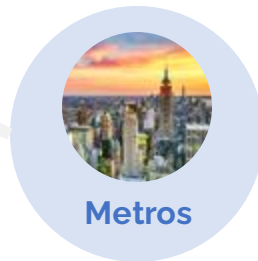
Early Policy Signals

**What Comes Next?**

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

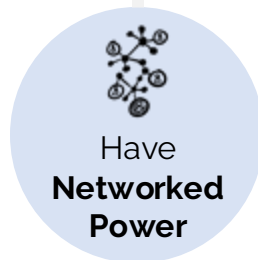
*Metros can:*

- **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

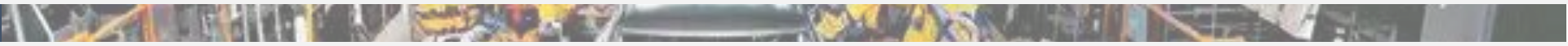
***“Power is shifting*** downward from national governments to cities and communities; horizontally from the public sector to networks of public, private and civic actors; and globally along circuits of capital, trade, and innovation.

***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



# Cities need to deliver and design the next downtown

- 
- What's your industrial edge?
  - Who is in your ecosystem?
  - What's your infrastructure strategy?
  - What's your residential strategy?
  - What's your innovation play?
  - What's your small business opportunity?
  - What's your workforce imperative?
  - Do you have the right institutions?
- 