



# Industrial Strategies for Distressed Urban Economies

September, 2009



# The Return of Industry to U.S. Cities

*The United States should be more competitive in industry in the next decade*

- Falling dollar reduces relative price of U.S. exports
  - Dollar has depreciated against the euro from \$1.20 in 2000 to \$0.63 in 2008
- Increased energy costs and “greening” favor domestic production
  - Crude oil prices increased dramatically from \$16 per barrel in 1999 to \$73 per barrel in 2009
- Real estate bubble accelerated loss of industrial land and jobs in the U.S.
  - Mass reductions in industrial land availability, e.g., 40% of industrial land in Bay Area is “at-risk” despite huge industrial job growth
  - Huge upward pressure on prices, e.g., in Los Angeles, industrial land prices increased from 1/3<sup>rd</sup> to 2 times residential due to pressure from conversions

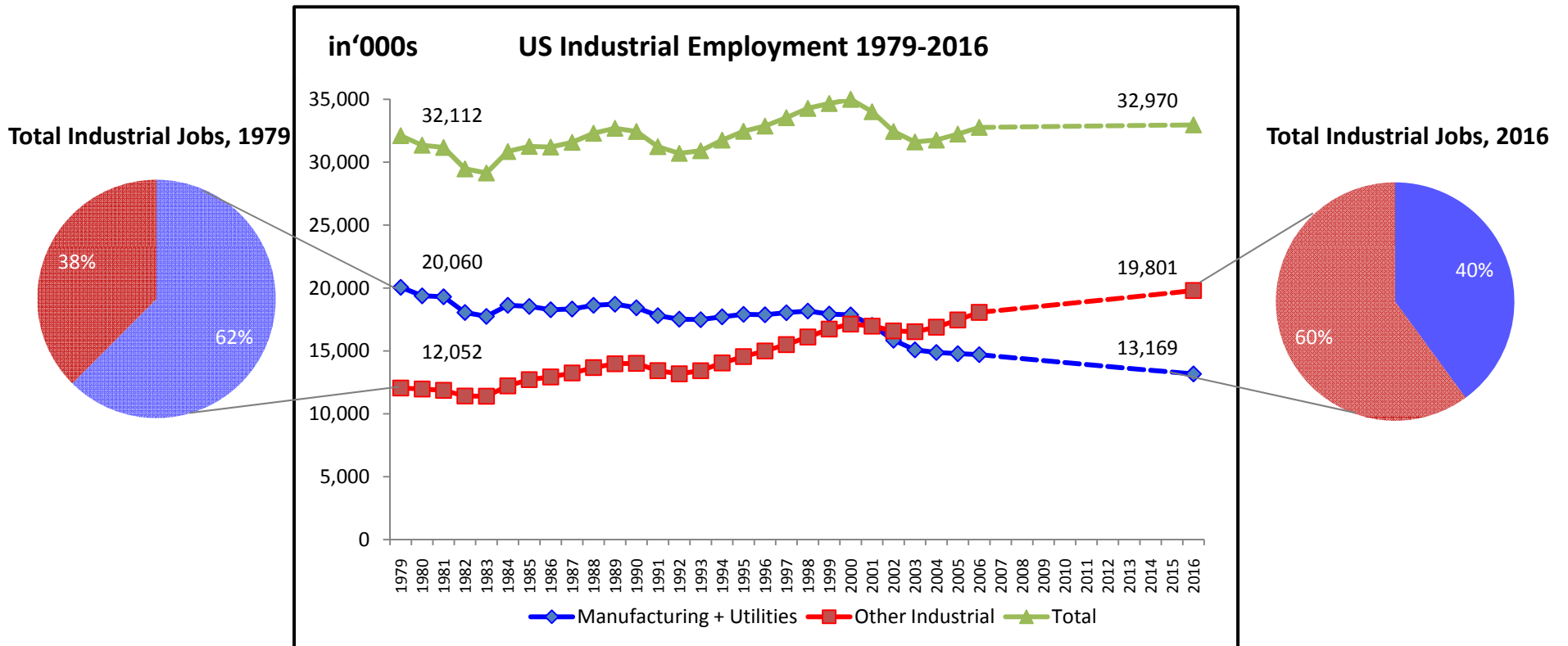
	1998-2008	2008-2018
<b>Exchange Rate</b>	—	↑
<b>Residential</b>	↓	—
<b>Green</b>	—	↑

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# Industry as an Opportunity for Job Growth

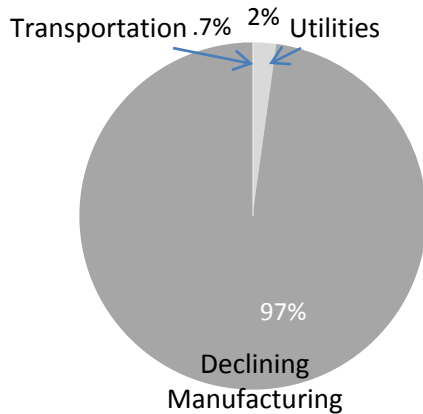
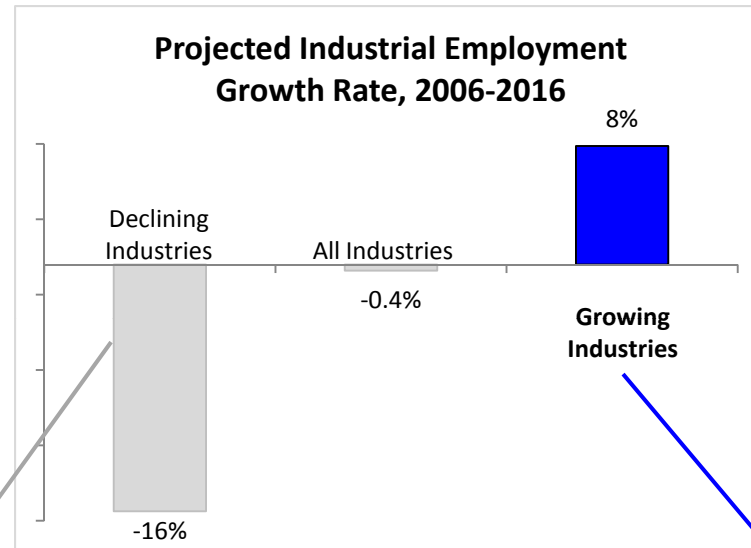
*The critical change in U.S. industrial activity is in the mix, not the level of activity*

- Total industrial employment has been stable since the late 1970s and is expected to remain constant between 2006 and 2016
- There has been a shift away from manufacturing to other industrial activity

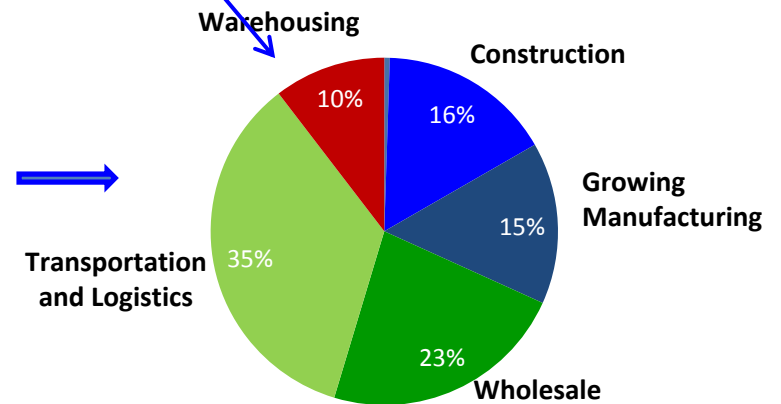


# Understanding Industrial Opportunities

*Growth opportunities span a wide range of sectors*



Percentage of Job Growth or Decline from 2006 to 2016



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Source: BLS 10-Year Employment Projections, QCEW 2006 Data, and ICIC Analysis  
Note: Total Industrial Employment is sourced from QCEW and reported at industry (6 digit NAICS) level

# Cities are the Natural Location for Industrial Activity

## Key Industrial Sectors:

## Sector Needs:

## Advantages of Urban Location:

**Transportation/  
Logistics/Wholesale**

Infrastructure  
Population patterns

Largest US cities are at the intersection of a majority transport options:

- 24% of US ports
- 66% of the 50 largest airports
- 35% of intermodal facilities

The regions surrounding the 100 largest inner cities contain two-thirds of the US population

**R&D Manufacturing  
(High-Tech)**

Knowledge cluster  
Educated workers  
Low-cost flex space

Concentration of “Eds/Meds” in cities  
Concentration of highly skilled and educated workers  
Existing footprints, incubator space, etc.

**Traditional  
Manufacturing/  
Construction**

Skilled labor  
Industrial assets

Pockets of remaining industrial strength  
National and global headquarters  
Existing buildings with access to infrastructure

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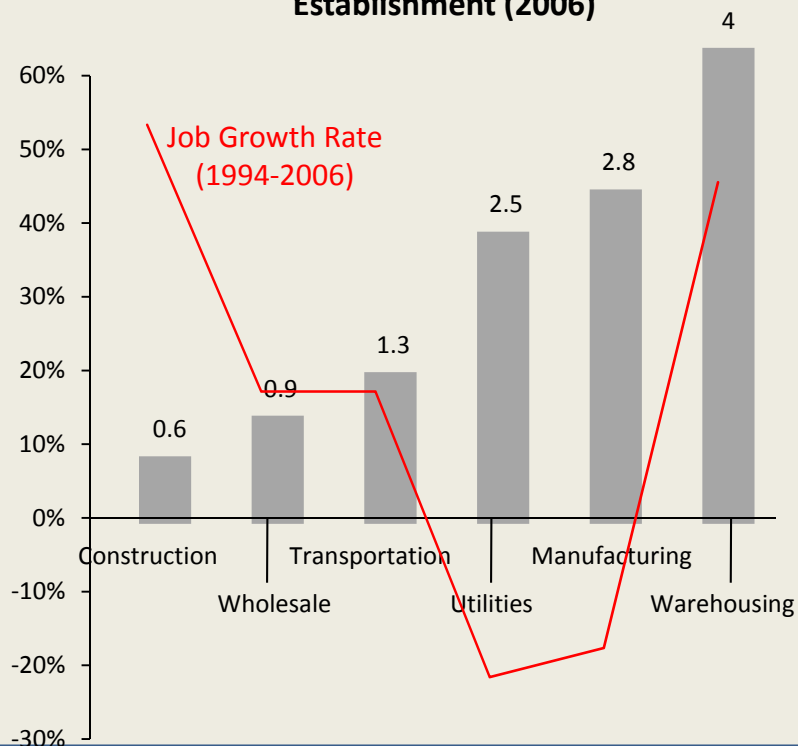
# National Challenge 1: Industrial Land

*There is increasing demand for large tracts of industrial land*

## Land Mismatch Represents a New Challenge...

The fastest-growing clusters require either very small or large tracts

**Job Growth Rate vs. Average Acreage per Establishment (2006)**

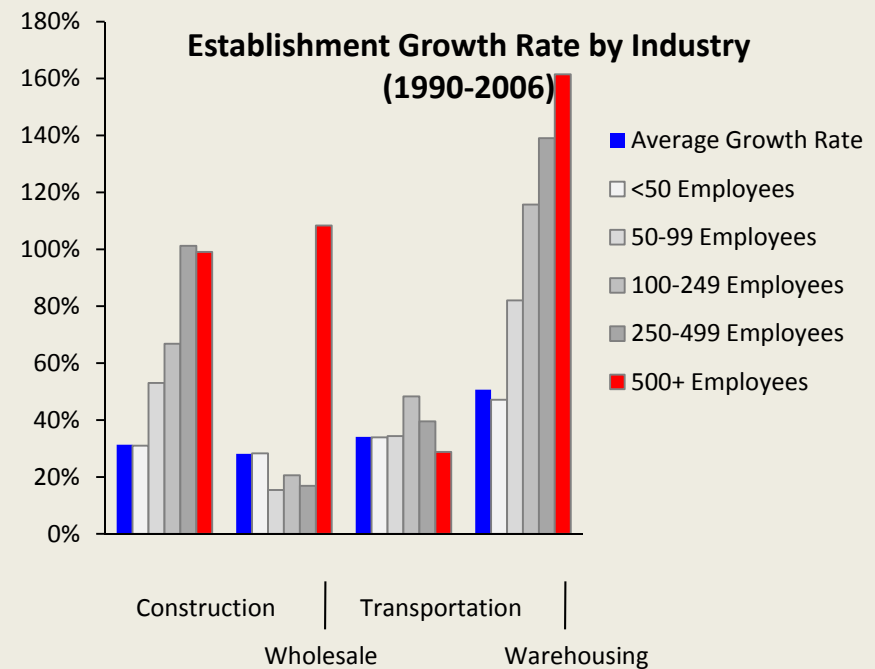


## ...Which is Exacerbated by Trends within Growing Industries

Establishment growth fastest in very large firms

E.g.: Mega-Distribution Centers (500,000 square feet) now account for 22% of DCs, compared to 4% in 1998

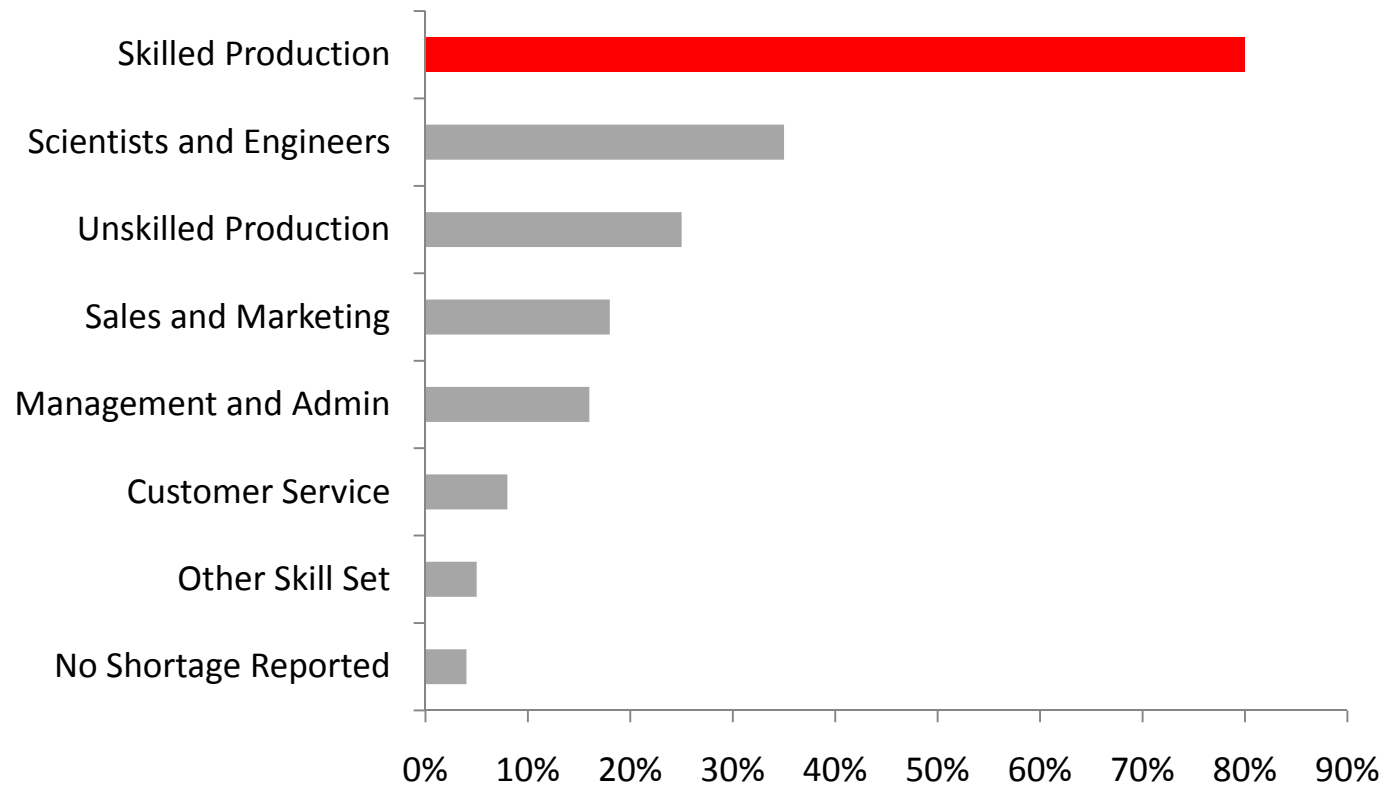
**Establishment Growth Rate by Industry (1990-2006)**



# National Challenge 2: Industrial Skills

*There is a national shortage of skilled production workers*

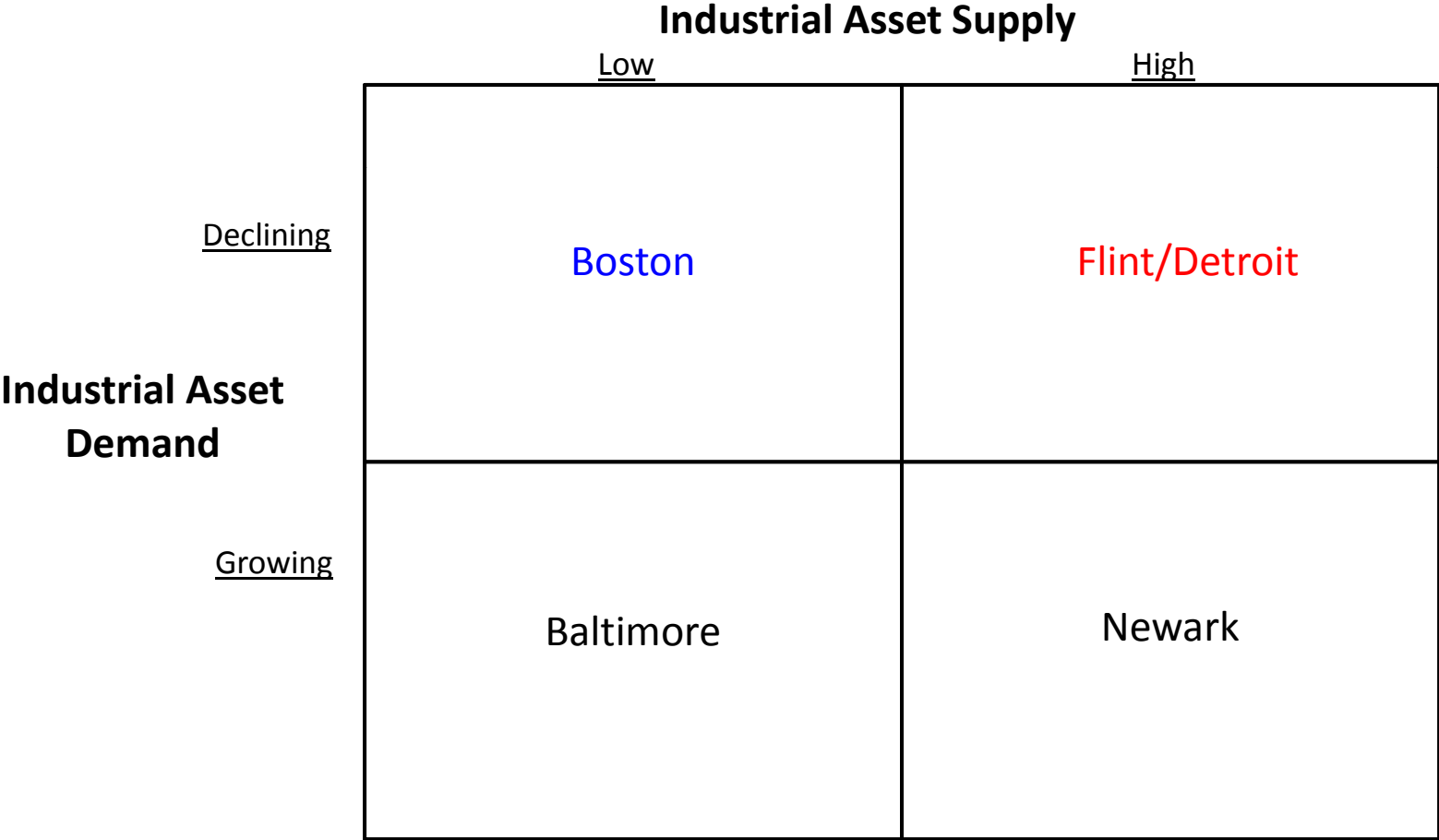
**Types of Employees Expected to Be in Short Supply Over the Next Three Years (Reported in 2005)**



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# Cities Can be Categorized Based on Industrial Assets (and Aspirations)

*Supply and demand of industrial land and assets varies by city*

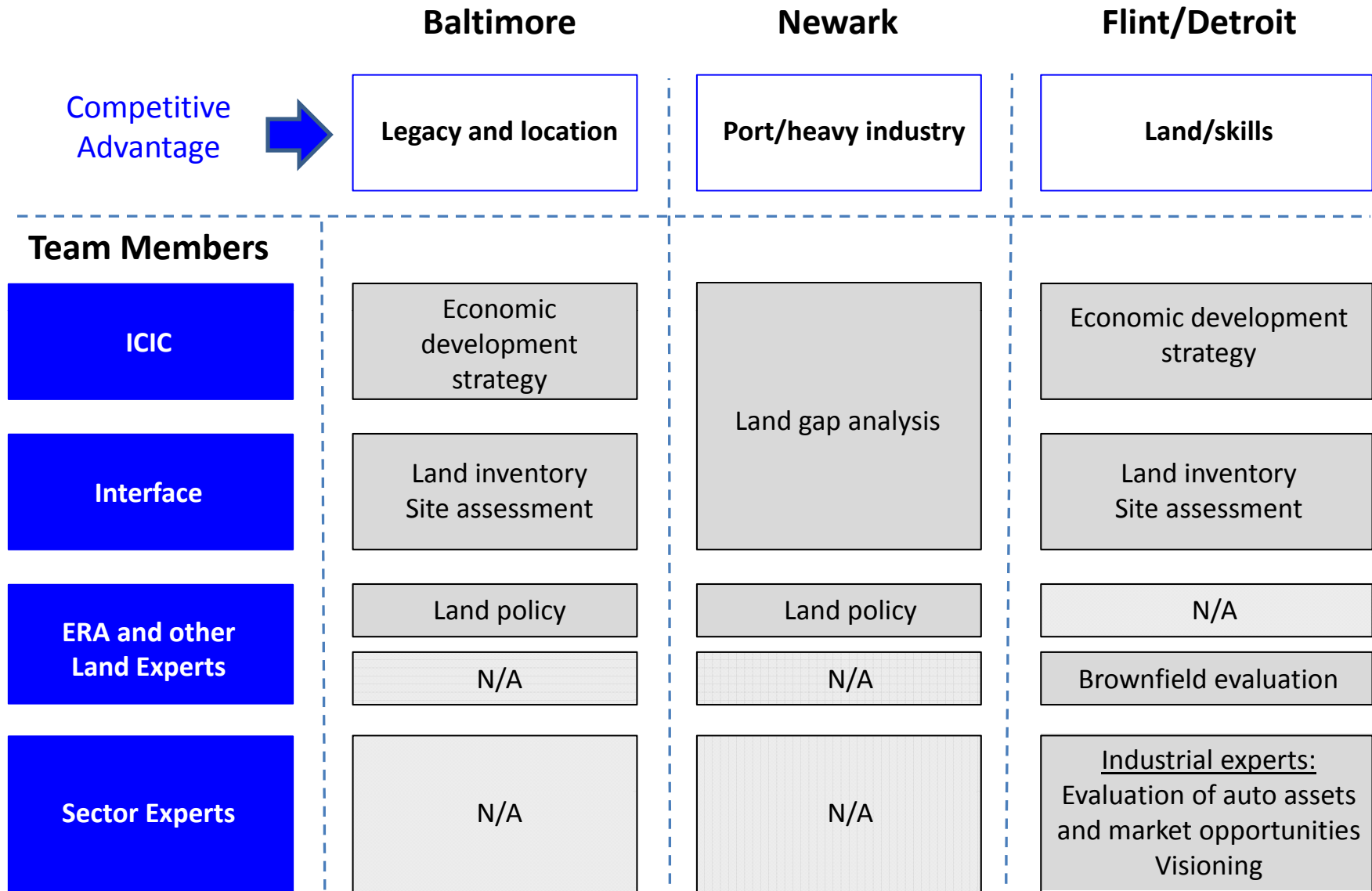




# A City's "Asset/Land Mix" Determines the Relevant Development Strategy

		Supply of Industrial Land/Assets	
		<u>Low</u>	<u>High</u>
Demand for Industrial Land	<u>Declining</u>	<p><b>Boston</b></p> <p><u>Competitive Advantage:</u> Eds and Meds</p> <p><u>Needs:</u> Strategic move away from industrial</p>	<p><b>Flint/Detroit</b></p> <p><u>Competitive Advantage:</u> <b>Land/Skills</b></p> <p><u>Needs:</u> Industrial strategy that leverages land, worker skills</p>
	<u>Growing</u>	<p><b>Baltimore</b></p> <p><u>Competitive Advantage:</u> <b>Legacy and Location</b></p> <p><u>Needs:</u> Estimate demand for land in key sectors; policy to create/preserve land</p>	<p><b>Newark</b></p> <p><u>Competitive Advantage:</u> <b>Port/Heavy Industry</b></p> <p><u>Needs:</u> Inventory and matching of supply and demand of industrial land</p>

# Team and Roles



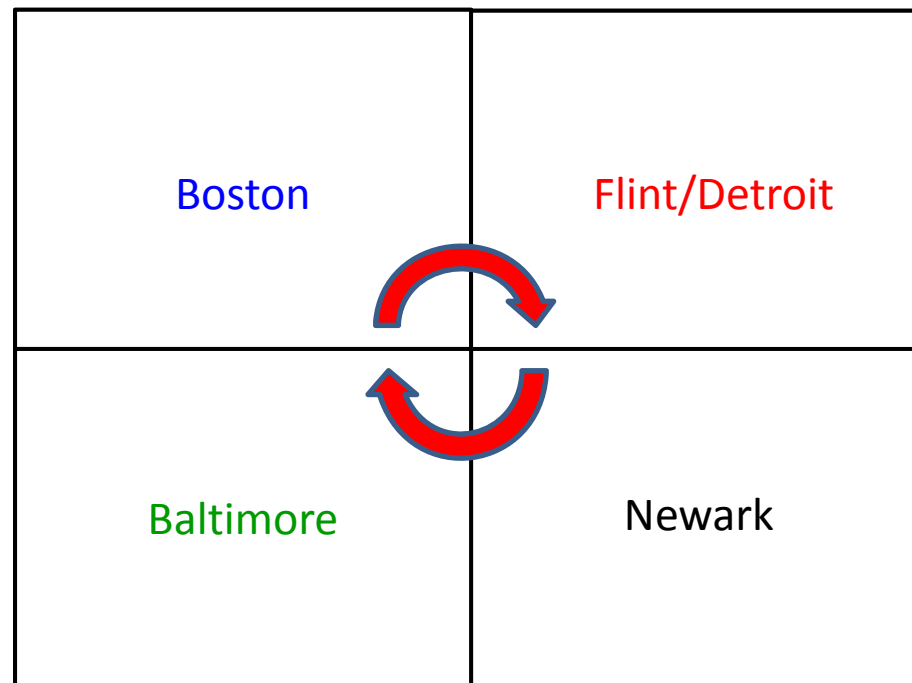
# The Value of a Multi-City Study

Benchmarking across cities and transferring learning regarding:

- Industrial strategies
- Firm success and failure
- Best practices in local policies

Aggregation of learnings:

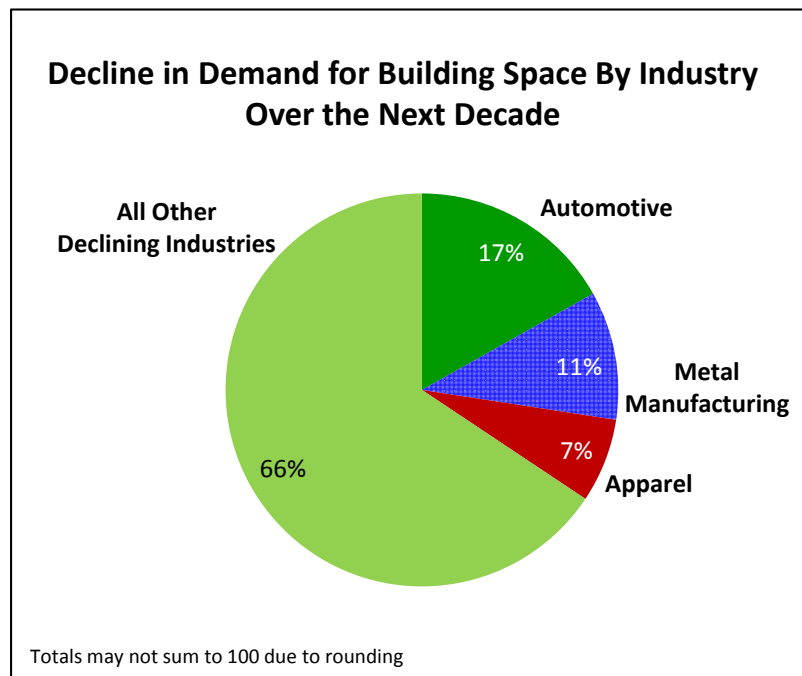
- National Industrial Policy
- National Land Use Policy
- International Competitiveness



# Example: Legacy Manufacturing Cities

*The decline of traditional manufacturing sectors will free up large industrial land tracts*

- The projected 10-year vacated building space in declining industries across the U.S. = **over 1 billion square feet**
- Growing industrial activities in the US will require **an almost identical amount of industrial space**



Three industries will account for one-third of the decline in demand for industrial space but they also represent a source of newly-released land for future development

These industries are geographically concentrated

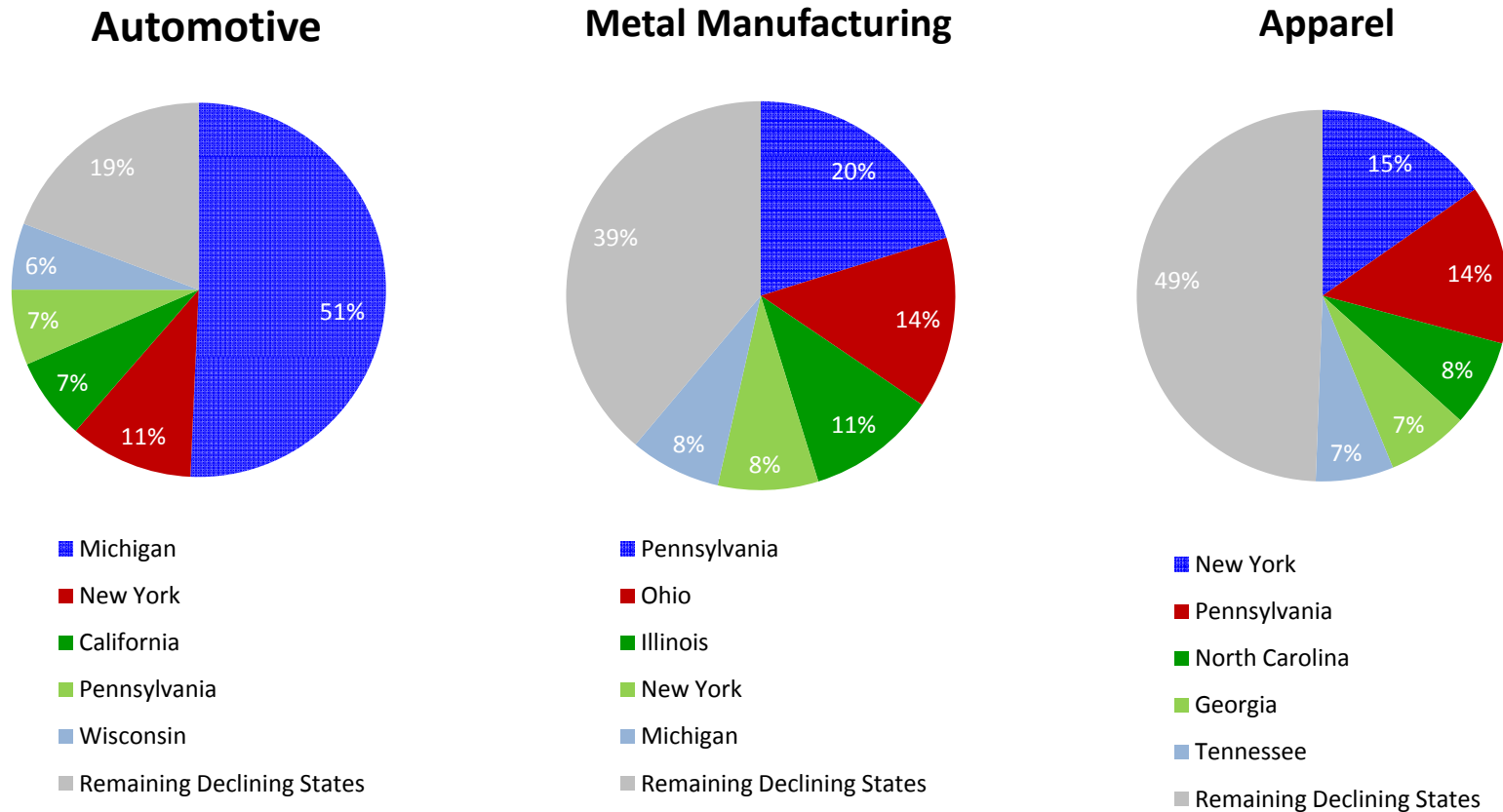
Site characteristics of heavy industry -- access, shape, proximity to residential -- usually amenable to other industrial uses

Brownfields policy is a critical path item

# Geographic Concentration of Industrial Decline

*The majority of the industrial decline is concentrated in select states*

**Percentage of Total Industrial Job Decline by State (1979-2000)**



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# Industrial Strategy for Auto Legacy Cities

- Step 1: Traditional Economic Development/Job Creation Strategy
  - Benchmark economy, focus discussion on facts, eliminate noise
  - Define growth objectives for existing industries, align development strategies with emerging opportunities
  - Challenge will be reliance on data-driven method that is heavily weighted towards the past; applicability is limited when there is rupture
  - Augment with steps 2 and 3 below
- Step 2: Auto Legacy Assets and Opportunities
  - Identify and anticipate emerging patterns in the global automotive industry
  - Evaluate how automotive assets were deployed in the past
  - Examine the current diversification of leading automotive economies globally, e.g., Shanghai, Stuttgart
  - Look at successful restructuring of other automotive dependent economies globally
- Step 3: Visioning
  - Scale of problem
  - Identify and exploit the unique competitive assets in Southeast Michigan
  - Translate assets and opportunities into economic development strategies

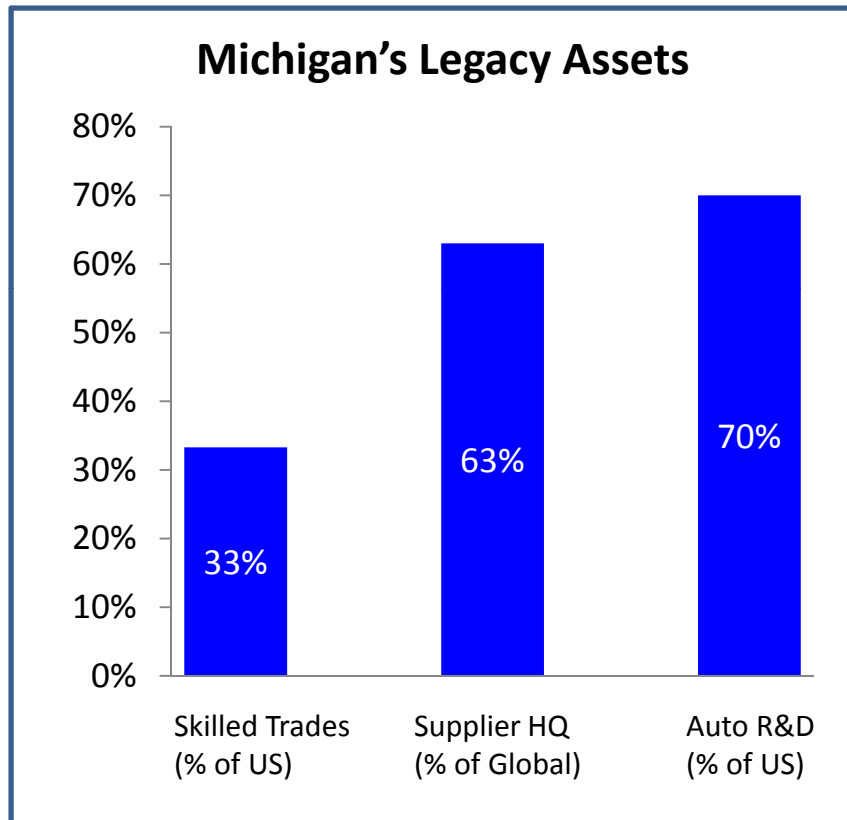
# Industrial Strategy for Auto Legacy Cities: Step I

- Economic Development and Job Creation Strategy
  - Objective: Identify industry or cluster “targets” and strategies to maximize employment or income growth in study area
  - Method: Analysis of existing and emerging strengths, assets, opportunities
    - Data analysis on trends, strengths, opportunities (local, regional, national data)
    - Interviews about competitive environment, emerging issues, industry trends
- Examples
  - Cluster study for Brooklyn (2005)
  - Neighborhood/site strategy for West Louisville (2007)
  - Industrial strategy for Philadelphia (2008)



*Translate findings into preliminary target cluster strategy*

# Industrial Strategy for Auto Legacy Cities: Step 2



- Match assets with market opportunities
  - Global firm strategies
  - Benchmark other auto-dependent economies
    - Diversification of current
    - Restructuring of past

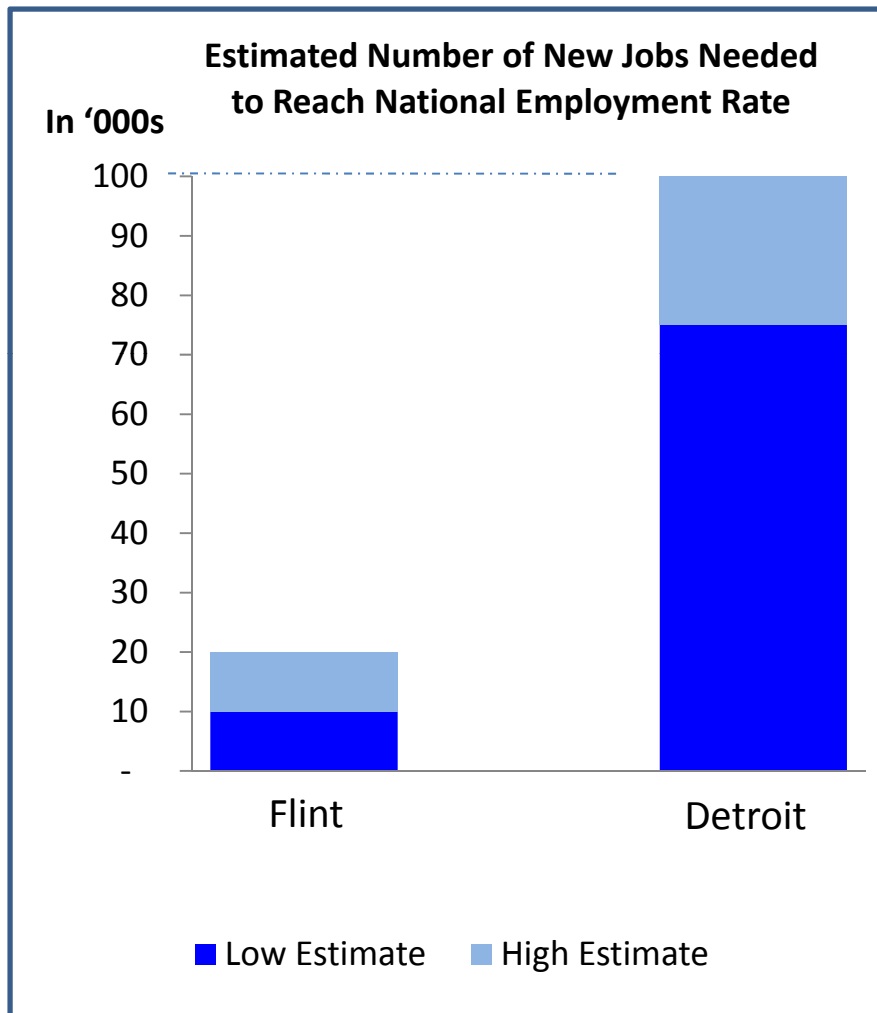


*Identify the set of potential industrial opportunities*

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# Industrial Strategy for Auto Legacy Cities: Step 3



## Step 3: Collaborative Visioning

- ICIC presents aggregate range of strategic options for evaluation by local and industry expertise
  - Why? Rupture between current trends and needs
  - Who? Public, private, foundation, governmental input
  - How? Two day-long roundtables, brainstorming sessions



*Translate unique assets into a viable industrial future*

# National Case for Revitalizing Urban Activity

*The U.S. as a whole will benefit greatly from strategies to re-urbanize industrial activity*

## Three outcomes are possible:

1. Continue trend of suburban industrialization
  - Abandon brownfields; eliminate more greenfields; higher costs; huge carbon footprint
2. Accept faster decline within industrial segments nationally
  - Further job loss nationally, more income inequality
- 3. Develop national policies and city strategies to bring industry back to U.S. cities**

## Why re-urbanize industrial activity?

### Equity

- Inner cities and their residents need jobs: between 1998-2006, the 100 largest inner cities added just 10,000 jobs while their regions added over 6 million jobs

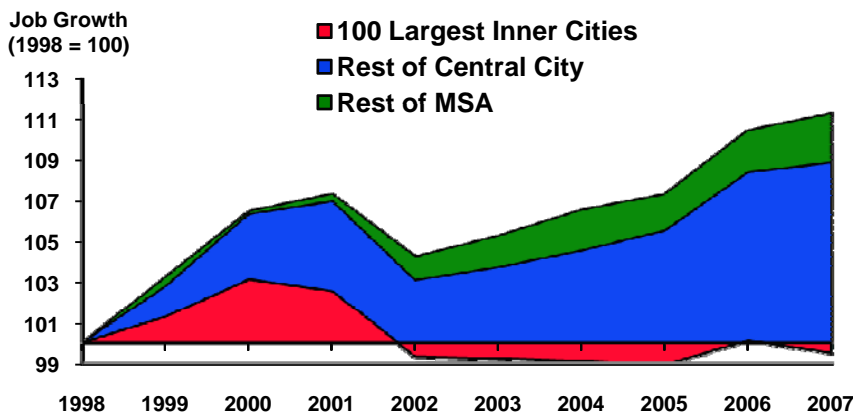
### Efficiency

- Industrial land in the Midwest can be redeployed to fuel national industrial growth

### Environment/Energy

- Re-focusing industrial activity in cities reduces supply chain costs

Job Growth in 100 Largest Inner Cities vs. Rest of MSA, (1998-2007)



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