

THEME 03

The rise of mid-sized cities

URBANIZATION

MEGACITIES

SMART HABITAT

From the rise of megacities to the decline of rural areas, the future of cities seems to be clearly outlined. However, there is also an ongoing revitalization of mid-sized cities. Expensive housing and long commutes in the largest cities could increasingly push people towards mid-sized cities. Together with renewed attention for the hinterland and rising investment outside of the largest cities, these forces are transforming urbanization.

Our observations

- [Between 2010 and 2015, mid-sized metropolitan areas](#) in the U.S. (between 250,000 and 5,000,000 people) had more people moving into them than anywhere else in the country. Meanwhile, larger cities are seeing slower population growth and an uptick in domestic out-migration.
- In the U.S., the greatest [worker shortages](#) are outside of large cities: in suburbs, mid-sized cities and rural areas. As a result, the idea of paying people to move into communities has spread. Meanwhile, for many millennials, [mid-sized cities are becoming their first choice](#).
- In the events industry, [mid-sized cities are increasingly popular](#). Many events are getting priced out of large cities as rates for hotels, venues, and food increase every year.
- [China's tech giants](#) increasingly focus on rural areas. Alibaba recently pumped \$717mn into Huitongda Network, an e-commerce platform serving 15,000+ rural towns. Tencent-backed WeDoctor is making healthcare more accessible for people in smaller cities, while JD.com has entered the stage there with its delivery drones. [Pinduoduo](#), the leading app for social e-commerce and the fastest growing app in China's history, has a core function of 'group-buying'. According to its founder, people from megacities like Beijing will never understand its business model.
- In [The Atlantic](#), James Fallows argues that the U.S. is reinventing itself on a local level, away from the gaze of coastal big-city America. Faith in local government is high (while national politics induces distrust). "Reverse talent migration" is taking place as young Americans increasingly find that the overall life balance is better someplace smaller and less expensive. The balance of venture capital is shifting towards smaller cities. And smaller cities increasingly feature smaller advanced-tech workplaces.
- France is launching a [\\$6.1bn plan](#) to revamp 222 city cores over the next five years. France's *Villes Moyennes* – or "average cities" – have populations between 15,000 and 100,000 and contain 23% of its population and 26% of its jobs. Minister of Territorial Cohesion [Jacques Mézard](#) said "medium-sized towns are an essential area for the development of our territories."

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Connecting the dots

Urbanization has raised living standards and created immense wealth. As the largest cities grow ever larger, they are increasingly on their way to becoming 'megacities' (metropolitan areas with over 10 million people), indicating a new phase in the history of urbanization. However, naturally, this phase is now revealing its limits: people are increasingly priced out of megacities or prefer life elsewhere. But the limits of megacities are only part of understanding the appeal of midsized cities. Three trends are relevant: challenges in megacities, the revenge of the hinterland, and innovation in (non-)urban areas.

First, the appeal of midsized cities is directly related to the challenges of megacities. The magnetic pull of megacities has also created problems that are nearly impossible to solve. Most important are affordable housing and congestion. Rather than being a problem for only the top cities, [unaffordable housing is baked into every global city](#).

The teachers, policemen and nurses that are being pushed out of the center of developed cities now resemble the desperate slum dwellers on the periphery of developing cities - as both are priced out of the city. Meanwhile, congestion chokes up urban roads, increasing commutes to disheartening lengths. These are wicked public policy problems, illustrated by the fact that only Tokyo (zoning deregulation for housing) and Singapore (congestion pricing) seem to have found viable solutions. Meanwhile, [midsized cities](#) provide lower cost of living, an easier commute, and a more neighborhood-oriented lifestyle which appeals to millennials.

Second, the ongoing populist wave is drawing attention to areas outside of big cities. Both journalists and politicians are [predominantly located in coastal big-cities](#). The populist wave of the last few years has refocused their gaze on the hinterland (where supporters of anti-establishment parties are predominantly located), which also entails the realization that the hinterland is vital to the national economy. Indeed, the central government of France is

focused on the dissatisfaction of its hinterland with its multi-billion-dollar plan. Furthermore, as these smaller cities face worker shortages, and large cities push out lower-level workers, [mid-level white collar jobs](#) could become what blue collar jobs were to the late 20th century, when blue collar jobs were pushed out of the biggest cities. Third, innovation and investment in areas outside of large cities are rising. AOL co-founder [Steve Case](#) notes that venture capital is increasingly focused on applying technology to businesses in agriculture, healthcare and manufacturing, which are dispersed throughout the country. In China, technology companies that focus on the hundreds of millions outside of the largest cities are enabled by technologies that establish connectivity in these areas (e.g. drones, apps and online platforms). In [The Smartest Places on Earth](#), van Agtmael and Bakker show that industrial centers (midsized cities) are finding new lives as highly advanced tech hubs. And indeed, smaller cities increasingly feature [advanced-tech startups](#) (the U.S. government's Manufacturing Extension Partnership has worked with more than 1,000 successful manufacturing start-ups). Moreover, Richard Florida shows that [rural areas are highly innovative](#). Rural areas actually have higher rates of innovation for large firms (those with 100 employees or more), while urban areas have the upper hand when it comes to their rate of innovation by small and medium-size firms.

All in all, megacities certainly will not disappear anytime soon. The increasing appeal of midsized cities is a transformation of the urban process (just like suburbanization and the inception of megacities). Still, the structural challenges of megacities, increased government focus on the hinterland, and rising innovation and investment outside of the largest cities could increasingly push people towards midsized cities, especially when mobility options improve (e.g. self-driving cars, mobility-as-a-service, public transport) for midsized cities that are well connected to megacities.

Implications

- **Mobility is an important roadblock to a larger population shift to midsized cities. It could take a viable mobility option that enables living in midsized cities while working in nearby megacities to trigger this shift. That would create an analogy to the 20th century shift to the suburbs (then the automobile, now perhaps the self-driving car). Such a mobility option would have to allude to the idea of the [travel time budget](#) (which is exceeded by many commutes in megacities today). Meanwhile, [mobile homes](#) could increasingly become an attractive option.**
- **The mounting challenges of megacities raise the question of the ideal bandwidth of city-size. [Geoffrey West](#) shows that whenever a city doubles in size, every measure of economic activity increases by [approximately 15% per capita](#) (benefits of the megacity), but that also applies to, for instance, violent crime and traffic (suggesting limits to exponential growth). Since rural areas and small cities do not create attractive lifestyles or robust economies, the ideal city-size is the range between midsized cities and megacities (their population sizes being dependent on the domestic population distribution). Furthermore, as the spatiality of the city and government policy co-create housing and congestion, they determine the limits of exponential urban growth.**