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The Rise of Global Startups and its Impact for the US

The NYUSPS Urban Lab at the Schack Institute of Real Estate develops new understanding of the economic and real estate trends that are shaping our cities.

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Since the mid-20th century, the United States has been the predominant and central location for high-tech startups, and the venture capital funding that backed them. Today, the venture capital picture has changed dramatically. “The Rise of the Startup City,” a recent report from [NYUSPS Schack Institute of Real Estate Urban Lab](#) and the [Center for American Entrepreneurship](#) assesses the trends and money at play between 2005 and 2017, looking at over 100,000 venture capital deals in over 300 metropolitan areas worldwide.

The findings are significant. First, venture capital is greatly remaking cities today, as these hubs become central to the industry. Six major Global Startup hubs—including London, Beijing, Los Angeles, and Boston—have arisen, making cities, and cities abroad, the new nexus for this arena. They sit alongside sets of 13 second-tier elite hubs including Delhi, Mumbai, Singapore, Stockholm, and Paris, and 20 advanced global hubs. Today, 24 total cities represent seventy-five percent of all VC investment, but only four percent of the world’s population.

Second, capital is moving out of the US to cities abroad, suggesting that the US is no longer the focal point for this economy, with deep implications. In the mid-1990s, the US accounted for 95 percent of VC activity, a number that has fallen to just over half today. VC activity has been growing across international cities in China, India, Europe, and the Middle East, but not in the US. These international cities have gained significant traction over their US counterparts. “When you look at the cities that are driving the increase, it’s disproportionately coming from Asia,” says study co-author Ian Hathaway, Research Director for the Center for American Entrepreneurship.

The Urban Lab at the Shack Institute recently convened a panel of experts for a conversation on the landscape and implications of the rise of global venture capital investment as it remakes cities, and how the US and its communities can retain ground. The following are four key insights from their discussion, focused on the implications and solutions for cities and the US economy.

Harness how cities shape technology

The major impacts of the startup environment for cities are twofold. First, the last decade has marked a boom cycle for this industry, with a near doubling of venture capital worldwide, focused primarily in cities and changing their landscapes. Startup enterprise has largely moved away from suburban areas into city centers—increasingly in San Francisco over

Silicon Valley—bringing a host of economic power to those centers, alongside challenges. “The rise of technology creates lot of opportunities for big cities, but also a lot of challenges,” says Richard Florida, co-author of the study and Distinguished Fellow at the NYUSPS Urban Lab.

For urban centers like San Francisco, the rise of tech over the past several decades has drastically changed the livability of the region for workers in [restaurants](#) and [schools](#) to tech itself. For other regions nationwide, that success has not always been felt. To gain the support and political conditions necessary to support pro-tech policies—like immigration geared partially toward talent—success needs to be felt across cities and hubs nationwide, not only in places like San Francisco and New York. “For the entrepreneurial community, you have to be thinking about innovative ways to bring people along—to demonstrate to folks that they have a stake in this,” says Congressman Jim Himes (D-CT 4th).

Second, many companies today in the sector are not just in cities, but, crucially, are dependent on them for their business model. The coming wave of technological innovation is focused on transforming cities, bringing the relationship between global location and the startup community even closer together. Urban tech includes real estate, ride-sharing, coworking, delivery, and co-living companies that are made of the interdependent relationship between their service and city life. “Cities are not just the host of the ecosystems, but are the platforms,” says Florida. While many startups may find it feasible to remain geographically close to a sizable university, the companies engaged in city-building practically require a city location.

Find avenues to support immigration, diversity, education, and talent

The study also demonstrates that the US is no longer the default central location for a startup community. As more startup hubs conducive to tech arise across the world, if it’s too hard to find talent, make or build a business here, startups may go elsewhere by necessity or choice. Immigration restrictions have made it difficult to [bring skilled labor](#) into the US, and the [lead-time](#) to get more people in the US ready for STEM focused jobs can be significant. “The real risk now, is [losing] this global war for talent,” says Hathaway.

The wave of isolationist thinking across the US and parts of Europe has the ability to reverse course on our historic gains, making the US less friendly to the very economies and industries that are propelling growth in the 21st century. “We should not do things that will reduce our competitiveness, which is what we’re doing right now with respect to immigration and investment in the future and all of its forms: infrastructure, education,” says Himes.

With the polarization in Washington, Florida posits that it might take thinking outside the national level—say a group mayors—who could begin to address the huge need to continue to support immigration and tech talent. Policy initiatives that promise to help build a Palo Alto or a like-minded place need to put in place, as well as an environment that is welcoming to immigrants and visitors coming for tourism, work, and education in the US.

Overt action can also be taken to voice business support for diversity and immigration. After President Trump's January 2017 executive order, which sought to [widely limit](#) travel and immigration, Julie Samuels, Executive Director of Tech:NYC, rapidly organized a [letter from NYC tech executives to that administration](#) opposing the policy proposal as harmful to the tech economy. The letter detailed immigrant entrepreneurs for companies including Google, LinkedIn, and eBay, and was signed by executives of Warby Parker, Shutterstock, Uber, Rent the Runway, and Artsy. "Is a letter going to change the policy? No. But it has a real impact," Samuels says, adding that over the past couple years, "we've seen a lot of really interesting things happening at the local and state level, and some of that comes from government, and a lot of it comes from community."

To that end, venture capital should interrogate its diversity picture, focusing on building out its work in the field. By extension, those same firms engaged in that work can leverage diverse companies to work with and invest in.

Support cities on the technological rise

To see its presence continue to grow, and to gain support in the US, the tech sector must also economically impact cities beyond the major superstars, building tech hubs nationwide. To support those hubs, the US must produce more talent in this sector—we need to fund schooling and programs that bring more students up to speed in STEM skills, setting up a tech labor network across the country. That requires thinking creatively about education standards and opportunities, as well economic incentives that can support startup growth in places beyond New York and San Francisco. "Too many people are being left behind, and that's partly why we're in the political mess today," Congressman Himes says.

Since the global recession, cities across the US, including Atlanta, Denver, and Detroit, have seen their startup presence rise. Public-private partnerships have the ability to support tech growth. New York City, for instance, has launched programs including [Women.NYC](#) to support women entrepreneurs, and a [\\$5 million fund for women in film and television](#), designed to bolster their presence and ownerships in projects.

Efforts in diversity among investors and companies are also arising, from [Built By Girls](#) to the [Female Founders Fund](#). Rather than seeing tech in cities as a potential negative as it arrives and grows, Florida says, the US must harness and support tech innovation in hubs throughout the country. At the same time, we must put policies in place that keep those same hubs liveable.

Think globally, understand locally, and leverage major anchors

Today, when startups become larger players, they often move to their neighboring geographic counterpart. But smaller incubator cities have the potential to help distribute jobs, startup enterprise, and attendant capital to a larger array of people and economies, while enjoying a potential much-needed reprieve from the soaring costs of operating, hiring, and living in a Bay Area or Boston. “There is an army of people and initiatives in communities all through the country. Civically minded individuals in these cities will move things forward, and we need to give people the tools to do that,” Hathaway notes.

Hubs of startup activity can often be found clustered around universities, which would do well to continue supporting early-stage companies and provide them the network they need—from access to R&D and talent, to a network of other companies, like the rise of venture capital and startups across Boston and Cambridge. Samuels of Tech:NYC, points to cities that have leveraged their historic ties to certain industries while bringing them into the tech space, thinking of Nashville’s history with the creative and [healthcare industries](#), and automotive and manufacturing in Detroit.

On the international scale, venture capitalists across the panel discussed the importance of not just engaging in international emerging markets, but also in understanding and building within their ecosystems. With the sizable power and reach of heaving-hitting companies like Facebook, and their related funds, venture capitalists are finding a changed market in which it is increasingly difficult to fund an unknown commodity.

As sectors including mobile money, Blockchain, and crypto grow, the picture of venture capital and startup culture has moved, and understanding their growth is crucial. “You can do early-stage venture on a global scale,” says Jalak Jobanputra, Managing Partner, Future Perfect Ventures, who looked abroad to emerging markets as Silicon Valley became more cluttered.

Relatedly, the picture of companies and their investors varies internationally—a picture that has changed markedly with the advent of the iPhone and the changed distribution of software itself, says Ian Sigalow, Partner, Greycroft. Startups abroad often still seek out the

US market, and the money often flows back toward the US. But panelists also caution against the assumption that companies abroad in markets like China might be less creative or innovative, noting that certain technologies like facial recognition could go far in a market where privacy is hardly regulated, and in which competition often looks different.

The changing geographic landscape of startups and venture capital promises to shift the global economy into the 21st century and beyond. Understanding how to harness these changes is crucial in order for the United States to remain a robust global player, and a continued leader on innovation. By continuing to attract the international workforce, and expanding this economy in the US into cities like Columbus, OH, Newark, Pittsburgh, and Detroit, startup enterprise can engage with more people and perhaps even take on a position in the US economy closer to historic leaders like the manufacturing and automotive industries. Broader reach could yield broader support, helping tech become a continued part of the nation's core into this century.

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NYUSPS SCHACK INSTITUTE OF REAL ESTATE

The NYU School of Professional Studies Schack Institute of Real Estate was founded in 1967 at the initiative of prominent members of the New York City real estate community, who encouraged NYU to establish an academic center that would provide a world-class education for industry professionals. Nearly 50 years later, the Schack Institute is at the forefront of real estate education and is recognized globally as one of the world's leading centers of real estate research and pedagogy. Across the Institute's graduate degree programs—notably the MS in Real Estate, the MS in Construction Management, and the MS in Real Estate Development—as well as a rapidly expanding undergraduate degree program, enrollment has grown to nearly 1,000 full- and part-time students from across the United States and nearly 50 other countries. In addition to its flagship degree programs, thousands of working professionals enroll in the Schack Institute's executive education, diploma, and career advancement programs each year.

An anchor of real estate academia's engagement with industry, the Institute is home to the REIT Center, the Center for the Sustainable Built Environment (SBE), and the newly established Urban Lab. In addition, the Institute hosts national industry events, including annual conferences on real estate capital markets and the REIT sector. Under the direction of the Schack Institute's faculty members, ongoing applied research at the Institute spans an exceptional range of issues in real estate development and investment, urban economics, and market structure and regulation. For more information about the NYUSPS Schack Institute of Real Estate, visit sps.nyu.edu/schack.

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