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COVID-19's Potential Impact on Cities: Five Trends and Indicators to Watch

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We have all seen it. Boarded up storefronts and desolate urban streets – a stark visual reminder that in the absence of developing and mass producing an effective vaccine or treatment, the pandemic is not going away soon enough. Even with the development of a vaccine, efficacy will most likely depend on maintaining sufficiently high vaccination rates to establish herd immunity and effective treatments that reduce mortality in the event serious illness still occurs. While there have been numerous bright spots and signs of hope, the longer the pandemic draws on, the greater the long-term risk for urban centers and public transportation. Public transit use thrives on urban density – if amenities are not concentrated or if destinations have high vacancy rates, transit ridership typically falls. With the absence of policy and fiscal support to keep these businesses, institutions, and amenities alive through the pandemic, cities could forever be changed.

From an urban economics perspective, cities exist because there are advantages to concentrating economic activity in one place, known as agglomeration economies (Pinto & Sablik, 2016). Cities have formed and exist for four reasons: 1) innovation; 2) learning; 3) production and trade; and 4) consumption. When businesses in the same industry cluster together, they can share inputs in the supply chain that reduce costs and share a common pool of skilled labor (Pinto & Sablik, 2016).

However, COVID-19 undermines the very economic purpose of why cities have formed and existed. Unlike prior crises where cities recovered out of necessity, the first global pandemic of the digital age changes things. With the advent of a post-modern digital economy enabled by telecommuting, teleconferencing, telelearning, and e-commerce, the pandemic has accelerated a digital transformation where cities no longer need to be physical places to foster innovation among people and businesses that have common interests. Physical production and in-person trade and commerce are no longer needed to create economic value. With the closure of restaurants, theaters, and other recreational and leisure venues, cities lose their inherent value: placemaking.

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During times of uncertainty, it helps to have some guidance to make informed planning and policy decisions. Here are five trends and indicators to watch as we try to understand what the "new normal" will look like, and to guide our communities to a post-pandemic recovery:

Five Trends and Indicators to Watch

- ***Millennials and Life Milestones:*** Some data points suggest that millennials are delaying life milestones, such as getting married and having children, that could have an impact on lifestyle decisions, such as housing and automobile ownership. According to the U.S. Census Bureau, since the late 1960s, the average age of first marriage has steadily and consistently increased from 22.8 for men and 20.5 for women in 1966 to 29.8 and 27.8 for men and women, respectively, in 2018. A pre-COVID study of millennials and homeownership found that many were bypassing the starter-home market in favor of a more expensive "forever home," in part due to additional money saved from living at home longer (Davidson, 2018). Considering average family sizes and the potential for millennial suburbanization will be important in the era of COVID-19 recovery.

- ***Existing and New Home Sales:*** After waves of viral outbreaks, months of shelter-in-place orders, the desire for more space, and historically low interest rates, some say these trends are creating renewed interest in suburban living. According to the National Association of Realtors (NAR), sales of existing home sales rose 2.4 percent to a seasonally adjusted rate of 6.0 million units in September 2020. Regionally, month-to-month sales increased 13.8 percent in the Northeast, 1.4 percent in the Midwest, and 0.8 percent in the Southern and Western U.S. (National Association of Realtors, 2020a). The supply of existing homes is at its lowest level since 1963, when government data began tracking this metric. Nationally, new home sales were at a seasonally adjusted rate of 1.011 million as of August 2020, a year-over-year increase of 43 percent (U.S. Department of Housing and Urban Development, 2020). However, due to reductions in available homes and lumber shortages from the Pacific wildfires, some suggest there could be an intermittent reduction in home sales due to supply constraints.

- ***Housing Affordability:*** The NAR also maintains a housing affordability index that measures whether a typical family earns enough income to qualify for a mortgage loan on a typical home at the national and regional levels based on the most recent price and income data. The composite index shows falling housing affordability 2012 through 2018 and then reverses direction showing increasing housing affordability over the past two years (in part due to falling interest rates) (National Association of Realtors, 2020b). As the economy recovers, housing affordability will be another key indicator to watch.

- ***Telework Ready Counties:*** The NAR has recently developed a work from home score that estimates the telework readiness of counties across the U.S. by using factors such as current percentage of workers already working from home and metrics that could be used to predict potential growth of telework in communities, such as internet connectivity, percent of workers in office jobs, home affordability, and population growth (National Association of Realtors, 2020c). The NAR's top 10 work from home counties were:

    #1 – Forsyth County, Georgia

    #2 – Douglas County, Colorado

    #3 – Los Alamos County, New Mexico

#4 – Collin County, Texas

#5 – Loudoun County, Virginia

#6 – Hamilton County, Indiana

#7 – Williamson County, Tennessee

#8 – Delaware County, Ohio

#9 – Broomfield County, Colorado

#10 – Dallas County, Iowa

Generally, the counties that tended to rank high using NAR's nine metrics were highly suburban and exurban. Telework is an important indicator to watch because it allows households to move more freely with respect to their residential location decision-making.

- ***The Growth of E-Commerce and Changing Consumption Patterns:*** From online shopping to bulk-buying at big box stores, consumers are changing what they are buying, when they are ordering it, and how that merchandise is getting home. In particular, online shopping is growing in terms of overall activity and percent of total retail activity. In August, the Department of Commerce announced that in the second quarter of 2020, total retail sales decreased 3.9 percent compared to the first quarter. E-commerce sales in the second quarter accounted for 16.1 percent of total sales (Department of Commerce, 2020).

  Unlike prior economic downturns, the pandemic recession is different. While there is no doubt that the pandemic has resulted in job losses, impacted consumer confidence, and reduced disposable income, but for those that are employed, the inability to travel and spend money on dining and entertainment coupled with low interest rates has resulted in unprecedented shifts in consumer spending. Early indicators suggest that consumers are shifting spending to purchasing durable goods, and purchasing and improving homes. Could these same trends contribute to an increase in sales of new and used automobiles?

These signposts offer some insight into an uncertain pandemic environment. All of these indicators suggest that the urban renaissance that has been widely praised in transportation and planning circles could be facing a number of notable headwinds.

The Real Risk of Pandemic-Induced Suburban and Exurban Flight

Telework and affordable housing are possibly the most important indicators to watch in a post-COVID era. With telework, people who live in urban centers and work from home no longer enjoy the benefits of reduced commute times but still confront high housing costs (generally higher than their suburban and exurban counterparts). With the growth of telework, households may choose to reside farther from urban cores, particularly if they can achieve cost saving from more affordable housing. Additionally, decision-making could be influenced by other quality-of-life factors, such as schools, parks, crime rates, and environmental quality, that make some locations within a region more or less attractive than others.

The longer the pandemic continues, the increased risk for urban decline. Now add quality-of-life issues, such as the high cost of housing, crime, civil unrest, environmental factors, and others, and you start to see a picture of urban malaise some would say contributed to decades of urban disinvestment beginning in the 1960s and 70s (Rappaport, 2003). Just as the pandemic has taken a human toll, it has also made our urban centers sick. The real risk of the pandemic is a repetitive cycle of closed storefronts, suburban flight, urban disinvestment, and fiscal cuts to essential services that contribute to a downward cycle of urban decay.

A Tale of Two Communities: The Dual Risks of a K-Shaped Recovery

There is no denying the uneven impact the pandemic has had on businesses and the workforce. It's no secret that main street retail, hospitality, and entertainment sectors of the economy have had difficulty adapting their business models for social distancing. The term "K-shaped recovery" has been used to describe an economy that recovers unevenly, and there's a separate trajectory for different business sectors and segments of the society. The longer the pandemic continues, the greater the risks of a K-shaped recovery where big box and mass merchandise retailers recover while leisure, hospitality, and main street businesses, such as restaurants, fitness centers, theaters, and others continue to struggle and potentially close. Urban centers that have traditionally been oriented around tourism could be particularly susceptible. Auto-oriented suburban and exurban communities, currently benefiting from increased home sales, new home construction, and a resurgence in superstores, could be faster to recover. More targeted policies and stimulus that help urban centers and the greatest impacted sectors areas of the economy (including main street) are needed to prevent a K-shaped recovery that benefits suburban and exurban communities while leaving city centers behind.

> *A Kansas City Federal Reserve Bank study of urban decline and growth between 1950 and 2000 found that "Comeback Cities" that reversed population declines substantially slowed population losses to surrounding suburbs and increased metropolitan area growth (Rappaport, 2003).*

There is also a risk of a K-shaped recovery within the transportation sector, where some travel modes and travel segments recover while others do not. Imagine a scenario for an extended period (months or years) where a white-collar workforce continues to telecommute, while those with on-site employment drive single occupant vehicles, and business travel demand is suppressed. In this scenario, vehicle miles traveled increases while public transportation and aviation fail to recover in any meaningful way. The forces contributing to suburban and deurbanization could be reinforced by emerging mobility technologies, such as automated vehicles and advanced air mobility, which can make longer distance trips more palatable. Collectively, these factors could play into one another, reinforcing a cycle that reduces urban density and public transit ridership, leading to service cuts, resulting in further declines in transit use.

Cities at a Crossroads

COVID-19 is a stark reminder that our cities are at an important crossroads. To prevent COVID from starting a cycle of urban decline, proactive policy is needed to:

- Provide targeted stimulus for small businesses and other highly-impacted sectors of the economy, many which are located in downtown cores;
- Repurpose, renovate, adapt, and/or rezone vacant office land uses that are not likely to recover due to long-term shifts in telework and potential growth of periodic unassigned desk concepts (sometimes referred to as “hoteling” and “hot desking” when telework employees need periodic access to an office or conference room);
- Expand access to affordable housing and reduce homelessness;
- Address social equity issues to create ladders of opportunity for enhanced health, transportation, and economic mobility for all;
- Slow urban population loss to surrounding suburbs through policies that encourage infill and limit greenfield development (e.g., urban growth boundaries); and
- Tackle quality of life challenges to make urban centers more attractive.

While there are some positive developments, such as repurposing the curb for outdoor dining and encouraging the use of micromobility in urban centers, these are mostly tactical policies that do not begin to fully address broader headwinds impacting our urban cores. In this new era of telework and e-commerce, urban policymakers need to recognize that households have greater choice in their location decisions. Competition between urban car-lite and suburban auto-oriented lifestyles has always been tough. Telework, lower interest rates, and people’s desire for more space is making this competition tougher. If cities don’t provide the very best quality of life, households will move elsewhere. Policymakers need to remember that in this new truly digital economy, households no longer “need” to live in urban centers. Urban policymakers have to make households “want” to.

We have to learn how to support urban revitalization in a new world where large percentages of the workforce do not need to commute to cities for work. Policies need to discourage outward growth and encourage market solutions for increasing the supply and reducing the cost of housing. This could include creative financing that reduces homebuying costs and helps transition lower-income households into homeownership; streamlined approval and permitting processes for developers; reducing parking requirements (that add to the cost of construction); increasing equitable transit-oriented development; incentives and zoning changes that allow for higher densities; and inclusionary zoning that require developers to dedicate a certain number of affordable housing units in a market rate development. And we can never forget core quality of life issues, such as public safety, parks and recreation, and schools. With prudent policy, cities have the potential to overcome not only quality of life challenges, but also longstanding equity ones that have contributed to systemic cycles of poverty, high housing costs, and the displacement of low-income workers far from job centers.

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