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On the Resilience of Urban Real Estate Development

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Abstract

The resilience of urban development refers to how cities and their hinterlands may or may not recover after environmental, social and economic crises. Within this realm, the study contemplates on the resilience of various real estate situations. The focus is on the socioeconomic consequences and opportunities arising in an existential crisis. The issues at stake concern density or dispersion of property developments together with the extent of dominance afforded by the private sector and average citizen. The conceptualization is illustrated by an examination of the Covid-19 outbreak in spring 2020 and its aftermath. This study builds on an earlier predictive study by the same author, now with the benefit of hindsight.

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Introduction

Since several decades the most convincing arguments concerning the ideal urban form were framed using criteria of energy efficient and compact spatial structure. While counterarguments concerning attributes such as quality of life and liveability existed, the opposite ideal, outwards directed urban development, was considered more of a deviation than a seriously taken alternative. It is evident that such an outcome has been justified by economic and environmental arguments rather than concerns of individual household choices, whenever the harm of continued urban sprawl was likely. (E.g. Kotkin, 2016)

What is missing in this debate on density vs. dispersion is the *resilience* aspect: the ability of a system to recover from shocks. For example, how a coastal area can cope with damages caused by flooding, storm surge or tsunamis. Considering the implications of Covid-19, suddenly the resilience of urban – and by implication, urban real estate –

development was on the agenda. And *in lieu* of the usual argumentation, the densification ideal was not seen as the default option anymore, and the opposite strategy carried clout, even if not directly related to the traditional pro-market anti-urbanist's view: household's freedom of choice. While we cannot yet conclude about how permanent such a turn may be, at least the balance has shifted from uncritically embracing compactness and densification towards a halfway recognition of the potential strengths of a less dense built-up environment.

Moreover, in an urban real estate development context, resilience concerns stretch far beyond the one-dimensionality of the densification vs. dispersion debate. The role of private sector provision is also frequently brought up when options for urban development are evaluated. And what is more, an urban area's ability to cope with crisis would arguably entail a reasonable agency for the individual citizen (so not just the consumer), given that affordable homeownership has become a grave concern for the working and middle class households across our urban, globalized world (e.g. Kotkin, 2016). These arguments are reviewed critically in this study, based on available literature, discussions with experts and online sites.

What are the consequences and opportunities arising for real estate activity in an existential crisis situation? An earlier article by the same author outlined some likely consequences of Covid-19 for the real estate sector – mainly in and around city regions in Europe and North America (see Kauko, 2020b). The discussion is also related to crisis management in a general sense. The focus will be on the socioeconomic side of the resilience concept, in so far as this objective is relatively neglected in comparison with natural catastrophes and epidemics.

The remainder of the study is organized in four sections. Next section examines the core concepts and their applicability to urban real estate development fora. The sections that follow discuss an existential crisis – first as a generic category, and then related to Covid-19. The last section concludes the study.

Resilience vs. Sustainability

In an urban setting, resilience can be defined as "...the capacity of a city or community to prepare for, respond to and adapt from dangerous and disruptive events, such as natural disasters, economic crises, demographic changes, health epidemics and others" (Figueiredo et al., 2018). Nevertheless, the resilience concept is considered more developed in rural rather than urban settings (Collier et al. 2013). When we examine the resilience of different circumstances, due to the permeability of the different spatial ranges involved, extending the context beyond site boundaries towards the level of urban area or city region is of paramount importance here (cf. Kauko, 2017). Drawing on a complex adaptive systems perspective, Bristow and Healy (2014) developed a robust conceptual understanding of what role policy-makers, particularly at sub-national level, might play in building economic resilience in regions. Elsewhere Mierzejewska and Wdowicka (2018) distinguished between the concepts 'city resilience' and 'resilient city' in so far as the former concept is a process and the latter a desired ideal (utopian) state. More recently, Masik and Grabkowska (2020) synthesised selected qualities of resilient cities and regions into a new model of resilience strategy.

When we examine the general meaning of the resilience concept, we note some similarities, but also crucial differences,

with other, related concepts, such as sustainability or sustainable development. At the very least, we need to make a difference between the two concepts: 'sustainability' is generally accepted concept whereas 'resilience' is debated, as it has so many meanings and each of them is contested. In contrast to the more general sustainability concept, resilience is a more advanced spatial development concept that requires considerable detail in its definition and methodological treatment (cf. Stumpp, 2013; Zhang and Li; 2018). In systemic terms, sustainability is about 'balancing the world' whereas resilience is about 'managing an imbalanced world' (Petrișor, 2017).

In the spirit of Glaeser (2022), the social dimension is indeed important for urban resilience analysis, given that the basic idea of resilience is seen as a foremost local, place-specific and community based issue. (Here is a contrast to the globally coordinated sustainability agenda.) Arguably, a detailed set of problems such as urban resilience requires incremental improvement and conversion at site-level – and bottom-up rather than top-down. (Kauko, 2020a). In fact, Hoffman (2014) notes that, while attention has shifted from sustainability to resilience, at the same time we lack the necessary social infrastructure for localities affected by natural disasters or infectious diseases. Therefore, Hoffman suggests increasing the autonomy of decision making at the local level.

The discussion on resilience above can conveniently be related to Kotkin's (2016) more general arguments about how we need to rethink our urban development ideals, and, in doing so, also be critical towards the concept of sustainability. Namely, the currently popular principle of densification of the built environment with the model in historical cities should not be followed uncritically as long as suburban – and indeed, exurban - living is preferred by the masses. Furthermore, in many urban regions suburbs can and perhaps should be allowed to develop on their own terms, Kotkin argues. Thus as a counterreaction to the currently fashionable retro-urbanism we should endorse human scale intervention in our built-up areas and their surroundings. The gist of the matter is that the resulting settlement pattern does not have to imitate the American style sprawling monotonous suburban landscape of single-family homes, but could be remade using innovative ideas, so as to produce an in between scale, Kotkin suggests.

Resilience to an existential Crisis

When contemplating the essence of a resilient society, at present talking point is the extent to which the current global order will prevail after the many different, recent and ongoing crises. According to Kotkin (2020), this situation has the tendency to divide further already rather polarized worldviews both within and between communities (cf. Harari 2020). In particular, Northern vs. Southern Europe, central cities vs. remote countryside; whether countries follow the lead of USA or China; and most obviously, those who have the means to protect themselves, against those who, due to one reason or another, do not have this capability. This development will inevitably exacerbate existing confrontations and potentially lead to new ones. But is this necessarily a bad state of affairs? While those who take the sides of the elites are unlikely to change their viewpoints because of the added time spent following news on-line, one would expect more political awareness in general, and possibly, a reconsideration of viewpoints of those who are not yet completely indoctrinated in the prevailing acceptable beliefs.

As Cosson (2020) shows, when setting up an efficient resilience policy, the preparedness of response to a crisis is an important factor at both nationwide and community levels. Japan is a good case in point in so far as disaster-relief public housing policy has been implemented since the Kanto earthquake 1923 and codified in the public housing law of 1951. Both the earthquake that shook Japan on 11 March 2011 and the devastating tsunami that followed prove this point. Cosson (2020) furthermore shows how emergency housing, in the shape of Iwanuma's relocation project, was in place at the community level for sheltering those who lost their homes due to the earthquake. This case underlines the role of place-specific safety networks in the provision of public housing in the face of sudden humanitarian disasters.

On the other hand, one could argue that the true resilience leadership required would not primarily be about the public sector, but about individual citizens and businesses. Both during and after the crisis the leading politicians are safe in the knowledge about their relatively protected status, so they can say whatever they want to secure their positions. However, ordinary people tend to remain on their own, and it is, at the end of the day, up to our diligence, innovativeness and solidarity to survive this crisis and future ones. (Kauko 2020.)

When improving the community resilience, the trick is to be constructive, yet in constant preparation for the next existential crises. Crisis conditions may also force us into inventing and innovating new solutions; and indeed, adapting and adopting established ones from elsewhere. Inevitably, alongside the continued development of technologies, social issues will interfere with this development, even closer than before, and for better or for worse. Here finding the balance between surveillance technology and reasonable trust in government will be vital for the guaranteeing of resilient communities (Harari 2020). The issue of vulnerability amid government actions is obviously a concern here (cf. Stan et al. 2020; Ling and Ho 2020).

While many professions have strong track records in innovative practices, plenty of business is based on a totally opposite strategy to innovativeness – namely speculation. Another non-innovative – and by implication, unsustainable – side is when cheap labour is brought in because of uncontrolled immigration from developing countries; this then would favour labour intensive work ahead of automation – this being the trend in many developed countries, with the exception of the ICT field. The recovery from any crisis will inevitably shift this balance away from immigration of cheap labour towards automata, which then, in principle, would encourage innovativeness. Another turn is likely to happen with the trend of outsourcing the production overseas, when countries realise that they do need local production to secure sufficient stocks of vital necessities for their own citizens, at the time of crises. To remind, amid the Covid-19 outbreak, the shortage of facemasks was particularly acute in France, from where most of the production of masks had moved overseas long time ago. These are but some of the issues that work against the condition of urban and real estate resilience.

The Covid-19 Crisis

In the prior study, I elaborated on four research questions concerning the effect of Covid-19 on real estate situations (Kauko 2020b: 87-88). First, *how will real estate be affected by the argued localization of economic and social life?* I concluded that it much depends on the extent to which the tenant can avert the dependence on the most global industries

such as travel. Their fate will also depend on the willingness of the landlord to renegotiate the rents at a lower level, and on their reliance on a particular micro-location. In sum, the aptness and adaptability of specific sectors matter.

Second, *how will real estate be affected by the argued shift from physical office settings towards virtual meetings and distance work?* Considering the reduced necessity of site visits for investors, this impact might not be substantial. If anything, relatively remote areas might receive a boost, as will the appreciation of having a large plot and plenty of living space. So we might see premiums being extracted for remoteness and space – a centripetal effect combined with a demand for isolation.

Third, *how will real estate be affected by the argued shift away from public towards private and voluntary realms?* While we should not underestimate the role of public sector, as the 2007/08 banking crisis showed, in real estate the cornerstone has always been private property rights. As for any shifts towards the voluntary sector, an optimist might join in with RICS and hope for solidarity among educated actors within the industry and beyond.

Fourth, *what are the implications of this kind of crisis for risk in real estate investment?* As risk attitudes (towards intended investment or development project) are subjective and compensated by risk premiums, one would expect increased premiums, and, by implication, lower income capitalization. Thus, the general mechanism is that the values of income producing real estate will fall in the long run, but their rents are expected to increase wherever tenants earn sufficiently high incomes.

What this analysis could foresee was that the distribution of rental incomes and property values would be categorically altered from their earlier levels. And this in turn would be strongly related to the localization of crucial economic and social activity, the preferences for working and shopping remotely and, in general, the resilience of private sector activities. What also could be foreseen was that the role of investment risk would be accentuated depending on how the real estate industry would react to the resetting of the businesses of the tenants, in their various degrees of adaptability. However, what the study could not foresee was the unscrupulous operations of the economic and political elites in making profits out of this crisis. One of the most criticised development is when financial institutions and governments are buying homes and business premises for strongly reduced prices, only to let them out again for either inflated rents related to the new risk adjusted yields, or for subsidised social housing.

Perhaps the most illustrative case in point is Blackrock, the biggest financial corporation in the world. At the height of the crisis they started buying homes *en masse* in middle class neighbourhoods in urban areas around the US. Their strategy was to outbid individual prospective buyers by offering 25-50% overprice. In this way they could secure the deals easily, as individual first home buyers in these areas were unable to compete with Blackrock. The logical outcome will be when Blackrock lets the apartments out for rent, ostensibly also for subsidized renters. This restricts the opportunity of average Americans to embark on the property ladder – traditionally the key component in generating wealth in the ascension onto the middle class and pursuit of what used to be known as ‘the American dream’. The tragic consequence of this operation will be increased social hazard and erosion of traditional values towards the neighbourhood and community. This is of course in line with what we already know in general about the redistribution of wealth during Covid-19: the elites gained, whereas nearly everyone else took a hit.

A further issue concerns health effects on different demographic and ethnic groups. Consider, for instance, the news about black people being disproportionately affected by Covid-19 in cities across USA; or Somali background families in Sweden. What is the reason? Failure in the education about healthy life styles and social distancing are probably the most obvious reasons here. One of the key criteria for a successful burnout of the virus is, *de facto*, that social distancing rules be observed as strictly as possible. For an ultimate success, having such restraint should also be the responsibility of individual judgement rather than only relying on forced measures.

At the time of writing, more than three years after the Covid-19 outbreak, we are still unsure about what kind of approach was best to protect ourselves. A sizeable minority suggested a more libertarian approach, whereas the majority were proponents of a more authoritarian approach. What seems clear is that it was about national as opposed to global level responses. What also seems clear is that the success of a given approach must be separated into two measures: one is the death-toll, and the other about hit on the economy. Authoritarian leadership typically would prioritise saving of human lives, and in the end, this would also mean saving workforce and preparing for new economic growth. Libertarians, in turn, would be prepared to accept a certain number of fatalities, if the wheels of the economy stay in motion. (Notably, the Swedish approach to the virus – aim for herd immunity that might never be achieved.) Neither approach is perfect, but, objectively assessed, the former seems the logical and more humane response in many ways.

This case has highlighted some of the difficulties when dealing with urban and real estate resilience (and related challenges). Even if we restrict the analysis to Covid-19 alone, we cannot say that we are out of the woods yet. The most complex question is as to what the long term effects of Covid-19 will be for different regions. In this vein, it is even argued that the World Health Organization is incompetent in their mission to deal with pandemics, and ought to be replaced with a new international organisation (Coughlin 2020).

Summary and Conclusions

Resilience means the ability of a system to respond to crises and crisis-like situations. In this study, after a discussion on the wider resilience issues urban real estate development is facing, Covid-19 was used as a proxy for this kind of strain test for the system. Framed within a positioning of the broader vision of urban development logic, this study has examined the resilience to virus outbreak in a real estate context by comparing the current situation with an earlier predictive study by the same author (published at the beginning of the crisis). So now we have the benefit of hindsight:

- Altering the distribution of rental incomes and property values (as anticipated).
- Depends on the localization of crucial economic and social activity, the preferences for working and shopping remotely and the resilience of the private sector (as anticipated).
- Investment risk becomes increasingly relevant depending on the adaptability of the real estate industry in relation to the businesses of the tenants (as anticipated).
- The economic and political elites making profits out of this crisis (not anticipated).

Eventually, the inevitable resource scarcity that follows a crisis entails a need to prioritize things. What are the real problems and what would an urgent response be? A virus can kill people quickly – climate change does not have such an effect. At that point then ‘talking heads’ tend to forget about issues they were so concerned about, only a short time ago. Was posing as expert justifiable to gain publicity and power, rather than having any solid knowledge of the situation? Fortunately, both individual people and the private sector are still capable of acting rationally, when it really matters. However, as viruses mutate to more resilient forms, we will never be able to eliminate the risk involved completely.

The conclusions in this paper can be summarised in a few suggestions for action. Crucially, when looking for ways to cope with crises, we should not stubbornly follow densification ideals of urban development. We should furthermore not neglect the private sector housing in this respect. And in this vein, when allowing for agency to deal with crises, middle income households are the main segment to rely on – suburban and uncool as they may be. Finally, whenever indicators for resilience is required, financial and subjective (common) risk concepts should be combined as means to analytical decisions on particular housing situations in terms of resilience.

At the time of writing, while the virus seems to have ran its course, the longer term consequences, including those for the real estate sector, remain inconclusive. In these circumstances, apt resilience policies concerning environmental, social and economic crises are required. And more compellingly, we cannot neglect the potential synergy of bringing in private sector actors.

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