

Impact of the Covid 19 pandemic on the development of Europe's regions,
19 May 2022, Masaryk Institute of Advanced Studies, CTU, Czech Republic

Resilience to virus outbreak in a real estate context

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Contents

Background

Resilience of real estate situations in city regions

On resilience to the virus crisis

Conclusions

Background

- In an earlier article, I outlined some likely consequences of Covid for the real estate sector (*International Journal of Real Estate Studies*, 14:S1, 2020)
- The distribution of rental incomes and property values will be categorically altered from their earlier levels
- 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
- 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
- What I 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, to let them out

The prior study concerned four research questions

(1) How will real estate be affected by the argued localization of economic and social life?

The aptness and adaptability of specific sectors and locations remains the key

(2) How will real estate be affected by the argued shift from physical office settings towards virtual meetings and distance work?

Premiums extracted for remoteness and space (centripetal effect and demand for isolation).

(3) How will real estate be affected by the argued shift away from public towards private and voluntary realms?

Private property rights have always been the cornerstone to real estate industry; most sectors rely on private funds.

(4) What are the implications of this kind of crisis for risk in real estate investment?

Amidst the general depression of economic values, rents are expected to increase wherever tenants remain profitable companies or high income earning residents.

In the current study the aim is to follow up these claims by examining the concept of regional resilience.

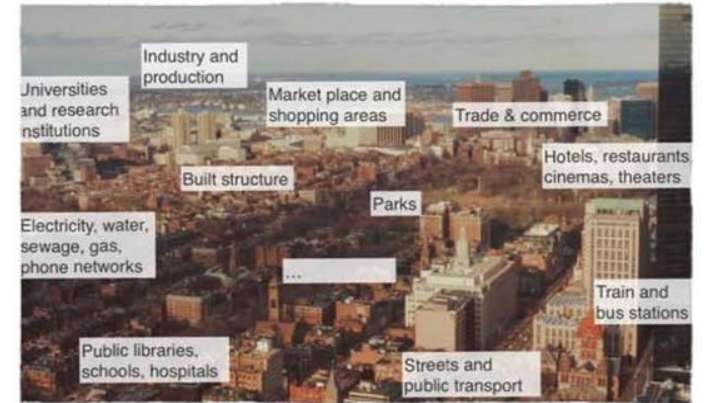
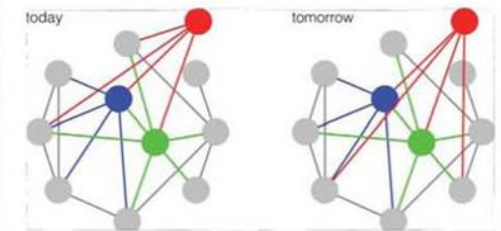
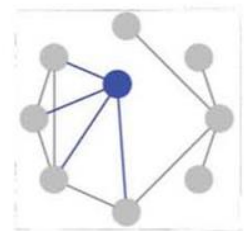
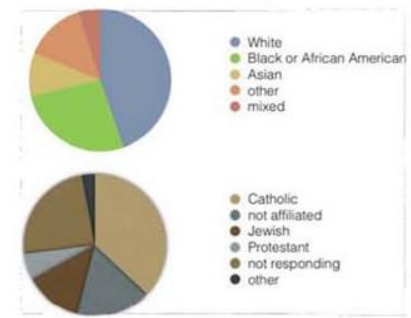
Resilience of real estate situations in city regions

- Complex adaptive systems perspective (Bristow & Healy, 2014): role of policy-makers in building economic resilience in regions.
- The overtly academic jargon of spatial development and planning needs to be evaluated critically before public funds are being directed
- The discourse around the concepts 'sustainability' and 'resilience' illustrate this:
 - 'sustainability' is generally accepted concept
 - 'resilience' is debated

Why is the city a **complex system**?

Complexity can be described by

- ... the amount of different elements
- ... the diversity of the elements
- ... the structure of relations
- ... the dynamic changes over time



Resilience of real estate situations in city regions (cont'd)

- In contrast to the more general sustainability concept, resilience is a more advanced spatial development concepts that requires considerable detail in its definition and methodological treatment (cf. Stumpp, 2013; Petrișor, 2017; Zhang and Li; 2018)
- Arguably, such detailed issues require private investment activity aimed at incremental improvement and conversion at site-level – bottom-up
- According to Hoffman (2014) attention has shifted from sustainability to resilience, but 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

On resilience to the virus crisis

- The extent to which the current global liberalist order will prevail?
- According to Kotkin (2020), this situation has the tendency to divide further already rather polarized worldviews both within and between communities (cf. Harari, 2020):
 - Northern vs Southern Europe
 - central cities vs. remote countryside
 - whether countries follow the lead of USA or China
 - those who have the means to protect themselves against the virus 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?

On resilience to the virus crisis (cont'd)

- Elites vs masses:
 - The leading politicians know, in the end, that they are protected, so they can say whatever they want to secure their positions, both during and after the crisis
 - 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
- When improving the community resilience, the trick is to be constructive, yet in constant preparation for the next virus outbreak or other comparable existential crises
- Crisis conditions may also force us into inventing and innovating new solutions; and indeed, adapting and adopting established ones from elsewhere
- Alongside the continued development of technologies, social issues will interfere with this development, even closer than before, and for better or for worse

On resilience to the virus crisis (cont'd)

- What this inevitable resource scarcity means is a need to prioritize things.
- Fortunately, individual people and private sector alike 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.
- A further issue concerns health effects on different demographic and ethnic groups.
- 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.
- Even after grappling more than two years with Covid, we still are unsure about what kind of approach is best to protect ourselves:
 - A sizeable minority suggest a more libertarian approach,
 - The majority are proponents of a more authoritarian approach.

Conclusions

- By comparing the current situation with an earlier predictive study by the same author from two years ago, we have the benefit of hindsight:
 - Altering the distribution of rental incomes and property values (so far, as anticipated)
 - Depends on the localization of crucial economic and social activity, the preferences for working and shopping remotely and, the resilience of private sector (so far, as anticipated)
 - Investment risk becomes increasingly relevant depending on the adaptability of the real estate industry in relation to the businesses of the tenants (so far, as anticipated)
 - the economic and political elites in making profits out of this crisis (not anticipated)
- The crisis is not over yet, and we should monitor the situation for longer term
- Resilience policy concerning environmental, social and economic crises cannot neglect the potential synergy of bringing in private sector actors.