

Cities and the Pandemic: The Accidental Experiment and the Road to the New Normal

Will Robson: We're here for the next installment of our MSCI conversations, and I'm joined by Greg Clark, who is an expert in cities and urban development, to talk about the Covid crisis and how it's impacting cities and the potential route to a new normal.

Greg Clark: Yes Will, delighted to be here with you. I've been working for 20-25 years on cities, the globalization of cities, urban development issues, density, real estate, urban investment issues, and just recently I've been focusing all of my attention with HSBC and with a group of global cities that I work with regularly on the impact of Covid-19, not just on cities generally, but particularly on their built environments and the medium-term prospects that come from that.

Will Robson: Okay. So, and this work that you've been doing most recently, could you tell us a bit more about how the crisis is impacting cities today? What the current impact is?

Greg Clark: Yes, well I think there are two things to say. On the one hand we're living through a kind of accidental experiment - an experiment in low carbon, low touch, low mobility, localized living, that is in a sense creating a completely new experience of how we live and work in our cities through this massive interruption. And I call it an accidental experiment because I think we're learning things from it. New discoveries are being made that may have long-term implications, which I'm sure we'll come back to. But at the same time we can say clearly that urban economies are being absolutely disrupted. It's obvious that the real estate implications of this are many. But if we take the sectors which are most highly negatively disrupted: travel and tourism, hospitality, any sector that involves a physical retail or physical office space, sectors that involve large scale transportation through public transport systems and others, because these things have been effectively shut down during the crisis, they've been extremely negatively impacted and the duration of the crisis is going to be pretty critical to how they come back. At the other end of the scale, we've got digitization, we've got health care, we've got as a service delivery models, we've got all sorts of other streaming, entertainment and other things that are doing very well through this crisis and supermarkets themselves, as you probably know, are absolutely booming. So there is a big spectrum of sectors that are positively impacted, sectors that are negatively impacted and major implications for real estate coming from all of that.

Will Robson: Okay. So I guess it's more obvious to understand what's currently happening, but everybody's asking about how do we move from this current situation and get back to normal as much as we may be able to. I understand you've been working around a framework to think about that transition and think about a number of phases. Could you tell us more about that framework and how you're thinking about that transition?

Greg Clark: Sure. So working with the 20 global cities that I've been convening to talk about this, we've basically started to identify a set of variables that are to do with medicine and a set of variables that are to do with time. So the variables are to do with medicine are very obvious. If we get to the point where we have a long-term durable, comprehensive, universally available, safe vaccine, then this of course allows us to move back as near as possible to the normal that we were use to. Failing the arrival of that vaccine quickly, we've got many more scientific approaches. Firstly, to medication, what we might call an antiinflammatories retro viruses if you like, medicines might emerge that enabled us to manage the presence of the virus better and that would allow more people to be mobile. The third one that's in the media a lot at the moment is the arrival of ubiquitous testing that allows us to test, trace, contact and understand as it were, the contours of the virus in order to manage it sporadically.

That also allows more people to become mobile again. And then the fourth one of course is the gradual emergence of what we might call herd immunity, where sufficient number of people have had the virus and established some antibodies that they may be able to move freely because of that. Each of these different four health scenarios, gives a different degree of human freedom and mobility and therefore possibly a different patronage of real estate spaces and places and other things. So we've started to think about this as having four phases. Phase number one is where we are now in many countries, lockdown. Lockdown is beginning to ease slightly in one or two locations, but as we know in East Asia where all of this began, lockdown has had to be reimposed in some locations as well. Out of lockdown, we get to a phase that we call transition.

This is the transition where lockdown is gradually eased, other kinds of medical processes take over, such as the ones I've just been describing, and this process allows us to get back to some kind of recovery situation. That third stage of recovery, depending upon how long it is, where it occurs, and how the economy begins to emerge during that determines how far we get back to a normal. And then the fourth phase we're looking at is the new normal, much discussed in the media at the moment and what the contents of that are and some of the variables. And we've identified some of the themes that we think will get us there.

Will Robson: Okay. And I guess through those four stages, there's lots of uncertainty around that in terms of how quickly we move from one phase to the next. Can you tell us a bit more about what those leavers are and how different scenarios might play out through those four phases and around different locations around the world.

Greg Clark: Yeah. So now I think, you know, Will, it makes sense to think about this as having a hard dimension and a soft dimension. So some of the key variables are, you know, those medical scenarios I described playing out in different ways in different places. Another one of course is the nature of the recession that occurs because of this. Will it be short and sharp? Will it be long and steep? Will it be a V? Will it be a U? We think that it will be a V in more developed economies, more like a U in the emerging economies, lots of challenges to do with that. But the key one, the overall one of course is citizen confidence. How do you re-establish citizen trust in the things that they've been used to? High-

capacity transport systems, gathering places, large, densely built environments, offices, mixed use, other kinds of developments.

How do we create citizen trust around those and which of those medical interventions will they trust? And at what point? You see, this unintended experiment that we are having, will have more catalytic effects the longer it goes on. So if people get used to getting all of their shopping delivered to them over a period of not just months, but maybe even into single digits of years, patterns tend to stick the more they're rehearsed. So this question of how long it takes and what the new normal looks at, it's a very dynamic relationship. And what citizens trust as a result of this is going to be determined by those variables.

Will Robson: So you just touched on there one of the implications for a part of the real estate market. Can you tell us a bit more about how you and the clients you've been working with are thinking about specifically the impact of those transition phases and the speed at which we come through, what that means for different parts of the real estate market.

Greg Clark: Yes, and this is very interesting of course, and there's no science here, these are ideas. But let's start by saying that before Covid-19, we were already aware that there are several traditional real estate uses and assets that were already in a dynamic state of equilibrium. You know, we're shifting from real estate as an to real estate as a service in almost every aspect of the built environment. And we're very aware because of the shift towards a lower car usage. For example, the rise of EVs, in particular changing patterns of retail and logistics there were all ready all sorts of land uses like petrol stations, car parking, shopping, particularly the high street that we're becoming somehow challenged by the environment. This moment simply accelerates all of those changes. And then there's a range of other real estate uses that, if you like, are subject to a major question mark. Now it will be obvious to people that anything that's associated with high capacity public transport, will have to await some kind of health assurance that it's possible for high capacity public transport to be used again in the way we were expecting.

So station precincts, anything that's connected by trains, anything to do with that kind of transport is going to be, we think, challenged. Secondly, obviously the speed at which the pandemic has spread, it's contagion effect and that being linked with physical proximity of people, means that large scale office developments, CBDs, stadiums, exhibition centers, and other places of public gathering, including public spaces like museums, galleries, theaters and others bars, of course, all of these places are subject now to a major challenge in how they're going to return. Other things that will be affected: universities. Student housing, which has become a very important part of the real estate investment opportunity framework over the past period of time, it's not at all clear how quickly students will regain the confidence to travel internationally to study and how quickly therefore universities will be able to up their student numbers again. Of course, anything that's related to passenger travel in airplanes and airports is going to be affected. So the negative effects and the uncertainties are going to be in those sectors it seems. And of course there'll be positive effects associated with data centers, logistics, healthcare, supermarkets and probably neighborhood centers as well if people decide to keep up this path of a higher level of remote working.

Will Robson: Yeah, that makes a lot of sense. From what you said, a lot of those challenges or opportunities are associated with the phase of being in the pandemic and coming through that, we touched on this idea of a new normal at the start of the conversation. Can you talk a bit more about, assuming that we do get to either a vaccine or herd immunity - removed the threats around this level of social interaction, in what way are you thinking about, even once we are through the danger period, are there some impacts of this crisis that could lead to long-term impacts that aren't really associated with social distancing per se from a risk mitigation point of view, but just have learned habits where we've started to do something that we didn't do before, but we actually quite like it. Did you think about that?

Greg Clark: Yes. And actually it's a very good question Will and if you like, it's the variable of the medicine that you spoke about, the variable of the size and the shape of the recession that you mentioned, and also then the variable of citizen behavior, consumer demand, patterns. But it seems to me that there's seven things that have really come out of this.

The first one is obviously a massive uptake in digitization. People using as a service or service-ization models as they're sometimes called using digital platforms rather than physical platforms in order to purchase all sorts of things. Not just retail, not just entertainment, but also the growth, for example, of telemedicine. That's really had a big kick from this. That's the first one. The second one is obviously to do with supply chains, trade, product availability. There's been big conversations in everybody's media about PPE because, of course, the healthcare system needs it, but there's a broader conversation here about the onshoring reshoring or nearshoring of products that are considered to be essential and in the national interest. So, we're moving as it were from a just-in-time system of production and distribution to just-in-case system of production and distribution, people wanting to have things more close at hand.

The third one is obviously the role of health, healthy living wellness in our lives. This has revealed because of the people who've been most negatively affected, those with the preconditions, those of a certain age, those sometimes from particular socioeconomic groups, that, as it were, the predisposition to illness is now part of our critical understanding of how this has worked. So we think that, the emergence of health as a much stronger organizing idea in our daily lives would accrue from this. So that's a third one. A fourth one here is that I think the connection between human health and planetary health has somehow been remade by this crisis. People are very aware that the pandemic emerges from, in a sense, our intervention in the animal kingdom and the food chain, the crossover infections are occurring because somehow we're disrupting the animal kingdom and the environment in all sorts of ways.

That coupled with this accidental experiment in low carbon living that we've been having I think leads to a big push in favor of tackling climate change, sustainable economies, and I think there will be a lot of consumer support behind that. The fifth one we see is a lot of what we might call a new spatial pattern emerging. We can talk about this in quite some detail but I think there are some fundamental

challenges for big dense cities here, and there are also some fundamental challenges for dominant centers within cities because I think part of the experience here has been people leading more local lives, perhaps more distributed lives, we might talk about that some more. And then I think the sixth one is to do with geopolitics. It's to do with the relationship between the USA and China. It's to do with China's relationship with the world.

But I think even more than that, it's to do with those countries that have been perceived to manage this crisis well, getting a kind of reputational dividend from that, that could I think mean that they attract talent, capital and other things. Countries that are perceived to have perhaps not managed this well, having to do a little bit of renewal in order to get back to where they were. And then I think the seventh thing, Will, that has emerged very strongly here is what I would call it a new social contract, i.e. that many people have experienced the solidarity, the community, the new neighborliness, the cooperation that's been happening, the support for emergency workers, the people who are often on very low incomes, that could lead to a new kind of social contract that will have implications for the role of government in our lives, the desire to track down, as it were, the non-tax paying corporates and think perhaps about taxing turnover and things like that. And also I think that will lead to an agenda about continued investment in emergency services and improving the lot of key workers. So these seven ideas emerge from the crisis mediated through the medical, the economic and the behavioral patterns that are emerging these, I think, begin to show us some ideas about how our future may be shaped and what the new normal will be.

Will Robson: Thanks for that. I mean, it's fascinating, I think we could talk for hours on each one of those seven ideas. I think in particular of interested is the impact on the nature of the city, the nature of a concentrated, targeted CBD versus a disrupted city, I think we'll have a future conversation about that in the series coming up so, thanks again, Greg, for your time. It's been fascinating. Thank you all for listening. See you next time.

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