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REAL ESTATE

Implications of the "Great De-Urbanization" of the United States

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David Friedman. Photo: Michael Falco

By David Friedman

I sent the email last year to our landlord for 21 West End Avenue, a luxury high-rise on the upper west side in Manhattan, where we leased an apartment on the 47th floor.

The email was invoking an early termination rider for our lease that I had negotiated the previous year as part of the renewal process. Our family of four encapsulates and was the precursor for the trend that I am now calling the "Great De-Urbanization" of America driven by COVID -19.

Post-COVID-19 paradigm will persist: Pause, prioritize, pivot and purchase

Representing a countertide from the mass urban exodus, families that had previously migrated from suburbs back to urban centers have now completely reversed their migration driven by COVID-19 and are cycling through the pandemic paradigm of "Pause, Prioritize, Pivot and Purchase."

We did the same, as we were forced by COVID-19 to pause. We began to reassess our own prioritization of our life and work. Granted, this was all enabled and made possible by the fact that COVID-19 made it acceptable to use virtual platforms for work and fundamentally reset and reordered expectations about the definitions of "office time."

While other families have been undergoing this process, I believe we were a leading indicator of this trend culminating in a full pivot out of Manhattan where we have lived for 20 years to a cottage we fortuitously bought five years ago in Sag Harbor on Long Island in the wake of selling our small apartment in the meatpacking district, coupled with the sale to a New York based private equity fund of a majority stake in the data firm I cofounded called Wealth-X.

We were fortunate to have purchased at that time since this de-urbanization trend is driving a massive escalation in secondary residential markets.

Amid the continued unfolding of the post-panic world, de-urbanization is driving tectonic shifts across the landscape and having profound implications for the role of place in our jobs, lives and communities which is

reverberating across commercial real estate in these urban areas, residential market and commercial office growth and demand in secondary markets and the very political texture of these communities.

The lens of de-urbanization brings into sharp focus the disruption occurring in these three key areas.

Commercial real estate in urban centers: Forever changed

I have many friends who are executives and control billions of dollars in commercial real estate. The optimistic perspective is that commercial real estate as an asset class will resume its full status within the next four to five years.

It is my believe that the fundamentals of commercial real estate have been forever altered from a core structural standpoint.

Commercial real estate is merely a reflection of the space needs of businesses. As such, business operations have experienced a fundamental shift to virtual during and post-COVID-19.

While the pendulum will swing back the other way from virtual to physical, it will there are to many mindsets and changes that have occurred for it to swing back entirely.

Commercial real estate has long resisted creating structures that reflect the nature of the businesses they serve. The growth of co-working spaces reflects the deficiency in addressing this tension between an enterprises need for agility and commercial real estate lease structures that are the antithesis of agility with long-term lease structures.

Commercial real estate will need to pivot to understanding its real value proposition which is providing space for elements that cannot be done virtually such as expression and inculcation of company values as well as creative brainstorming, both of which will be very hard to translate into the virtual arena.

McKinsey and other service-oriented businesses will never again sign the scope and length of leases that they have signed in the past.

Many organizations such as Citi Private Bank have been moving to a open floor plan with "docks" for a while, which has made it easier for this type of transition.

As stated, the pendulum will definitely swing back to physical space, but it will never swing all the way back.

Just as clicks-and-mortar was the mantra for business-to-consumer enterprises, it will now apply to business-to-business organizations.

Landlords and owners that understand their future value and start to adapt to these needs, both from a physical space offering perspective and from a lease structure standpoint, will secure a competitive advantage and emerge as the winners as well as be more highly valued by the capital markets.

Two sides to the same coin: Demand for homes in secondary markets coupled with demand for office and other commercial real estate in those markets

As families "pause" and "prioritize" their lives during and post-COVID-19, they will be asking themselves if they really need or even want to return to urban centers full time especially since much of their work can now be done virtually and their company's and clients' expectations have been forced into a new framework where virtual meetings are acceptable.

As they come out of this thinking process and decide to pivot and purchase in secondary markets or simply pivot their life to their existing secondary home, many will enjoy the time home with their families, but at some point they will decide that they need a place to work and dedicated office space to that gives them some distance as well as potential to collaborate and connect with other professionals in an appropriate fashion.

What will the future look like

This trend foretells the growth of commercial and office space to accommodate and capture the surge in executives and employees that will decide to make their pivot permanent to these secondary markets.

Even if they decide to fully pivot and cross this urban rubicon to the secondary markets, they will still want access to urban centers and will divide their life between a few days at the office where they can engage their culture and drive innovative strategies by being together.

COVID-19 has forever forced a reevaluation of the role of place in our careers, callings and communities.

By pausing travel, COVID-19 made us all realize that there is much we can get done virtually and created space to spend time with families. There are many road warriors that miss the plush hotels and upgrades, but there will always be times for travel.

Moving forward to defining paradigm for determining whether there should be travel or not will be through a different lens that has been shaped by COVID-19 and will persist post the pandemic.

Changing the political texture of urban and suburban migration destinations

One of the most interesting and fascinating implications of de-urbanization that is not the most readily evident is the potential fundamental shifting of the political fabrics of urban centers as well as the second-home pivot locations.

With the mass exodus two secondary markets from urban centers, those new residents bring with them their own political views and positions.

In this light, the de-urbanization trend will be accompanied by a shift right to urban centers left by the political vacuum of many families and the shift left to more suburban secondary markets as the once weekenders now actually attempt to implant themselves as the result of their pivot.

COVID-19 HAS TURNED the tide of once what was an urbanization trend of families moving back to urban centers. Now, we are witnessing a massive de-urbanization because those same families and others have experienced the pandemic that has caused them to pause, prioritize their jobs and commutes, leading to a pivot to their second home if they have one or purchase if they did not.

This de-urbanization trend has implications that have rippled across residential real estate, commercial real estate and political textures of these communities.

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