Analyzing global cities in the 2020s

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Post-pandemic life is on the horizon, but which global markets are best positioned to benefit over the next decade?

The coronavirus pandemic has changed how we work, shop, communicate, and even where we choose to live. While some of these changes will be temporary, we believe that the pandemic has accelerated trends that will have a lasting impact on our lives and cities worldwide.

Certain cities and submarkets within cities are better positioned to capitalise on these trends, creating opportunities for investors around the globe.

What's changing?

Notable trends that will affect global market performance going forward include:

- A wider adoption of work-from-home and hybrid work models
- Significant migration to the outer ranges of commuter belts, revived cities and towns, and growing regions that provide attractive lifestyle benefits
- The integration of e-commerce into both in-person and online retail experiences
- The evolution of transportation and industry supply chains
- Lower demand for business travel, relative to leisure travel

Which cities will benefit?

Successful investing in real estate will rely on understanding the impact of these trends on cities worldwide. The population centers that will benefit from these shifts, most notably due to the added flexibility afforded to workers, will differ based on region, as our real estate research team has explored.

In the United States, suburban areas outside of gateway and low-cost markets will benefit economically. The coronavirus pandemic has accelerated suburban migration in all regions, as workers have felt less tied to city centers with a work-from-home lifestyle that is likely to continue in some capacity after the pandemic. Furthermore, the economic and lifestyle calculation of living in many of the country's most expensive markets makes increasingly less sense given the greater flexibility afforded to workers. Low-cost markets that are able to transition workers from low-wage sectors damaged by the pandemic, such as retail, to growing industries that also rely on low-wage employment, for example in logistics, storage and residential construction, should also present opportunities.

In Europe, many residents may migrate to small towns outside gateway markets, leading to an extension of the commuter belt, and some residents may move to innovative and attractive second-tier cities. However, given the differences within the region, the impact of the pandemic is likely to be subtle and drawn out over the next decade, and the investment implications are likely to be unique to cities and sectors. For example, while residents of larger international cities like London, Paris, Amsterdam and Berlin have widely adapted to using digital alternatives, many smaller companies in more traditional industries, such as law, manufacturing, retail or transport, have not fully embraced remote work environments. And we see opportunities for some markets in the industrial heartlands to benefit from the pandemic's boost in e-commerce provided they can tap into the higher demand for logistics.

In the Asia Pacific region, the pandemic has accelerated some existing trends. It has increased the growing market share of e-commerce, deepened technological innovation and penetration, and reshaped behavioral attitudes over work-life balance. However, it is unlikely that these overarching macro trends will overturn many long-held beliefs over the attractiveness of urban living and the existing hierarchy of cities within each country. That said, even though workers are unlikely to leave the major cities, there is evidence of workers moving further away from the city centers. And, while the larger markets will continue to grow, some markets will gain in importance from the pandemic over others, and the delineation between gateway markets may widen.

Diversify to benefit

Workers, firms and local governments are reassessing the locations that could provide a better quality of life and higher productivity in the post-coronavirus world. Real estate investors should take note of these behavioral changes. Cities are far from uniform, and our research shows that opportunities for real estate markets vary widely across the globe.

In the short term, virus control-related factors will remain relevant, in particular, (1) the ability of vaccines to remain efficacious against new variants, (2) differences in government policy towards controlling the pandemic and (3) the ability of digital infrastructure to stay stable despite potential threats (i.e., cybersecurity, enterprise risk).

Over the longer term, however, we argue that Asian, North American and European cities will chart distinctive paths into the more digital, post-coronavirus world due to different realities in terms of geography, economic structure, demographics and culture.

The coronavirus pandemic may have affected every global region, but markets and countries within different regions will emerge from the pandemic with different economic trajectories. Real estate investors will benefit significantly from international diversification. In this new economic cycle, markets within one country or region tend to be much more correlated than markets within different countries and regions.

To find out more, read Nuveen Real Estate's research paper Analyzing Global Cities in the 2020s, available at Nuveen.com/realestate

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