



URBAN TRANSFORMATION
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Cities in the Post-COVID Age



The agglomeration of people and economic growth can drive local creative/lifestyle sectors such as the restaurant scene. Pictured, Lau Pa Sat, one of Singapore's most bustling dinner spots in town.

Image: Ethan Hu / Unsplash

Changes to the world's urban dynamics in the post-COVID world are challenging many of the assumptions of the 1995-2020 period. Sanjeev Sanyal looks at how urban dynamism has shifted globally, from Hong Kong to Singapore and Dubai, California to Texas, Istanbul to Warsaw and so on. In particular, he looks at how Richard Florida's thesis of the "creative class" as the driver of urban growth, is being turned on its head. In the post-COVID world, if the creative class has become the outcome rather than source of growth, what then are the emerging forces that will drive growth in successful cities?



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In the early 1990s, as developed world cities de-industrialised, and new digital communications systems (e.g. the internet and mobile telephony) emerged, many urban experts were of the opinion that cities would become obsolete. Why would anyone live in a crowded city, and suffer the traffic and high rents, when one could work and communicate from anywhere? Subsequent events, however, proved this prediction wrong.

Not only did digital communications radically change the world in the decades that followed, they facilitated the great revival of megacities. New York and London reawakened after decades of decline, even as newly-rich cities like Dubai and Singapore boomed. In the developing world, cities like Delhi, Bangalore and Shanghai experienced exponential growth. Even Tokyo managed to attract additional people in a country with a shrinking population.

It turned out that the new digital technologies enabled these cities to become the nodes of a rapidly globalising world. Far

from encouraging people to live far away from cities, the new communications technologies accelerated human interactions, which in turn generated a significant surge of socio-economic value in these cities. Indeed, the larger cities benefitted disproportionately as they attracted young, creative workers who could take advantage of the opportunities made possible by new digital platforms, such as social media.

Cities succeeded in the first two decades of the 21st century because of the concentration of urban infrastructure, direct human interaction and, importantly, the concentration of a "creative class", which generated so much value that it negated the high cost of living in them.

Richard Florida, in his influential books *The Rise of the Creative Class* and *Cities and Creative Class*, wrote passionately about how the creative class changed cities and drove urban economies. However, human interaction has become increasingly digital – video conferencing on Zoom, WhatsApp messaging,

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Instagram posts, and so on. There is now a generation that has grown up using digital platforms and is completely comfortable with them (and perhaps even prefers them).

Across the world, companies are struggling to get workers back to working regularly in the office, rather than remotely. Moreover, the COVID-19 pandemic demonstrated the downside of living in areas of high density. What then is the role of cities? Will the urban experts of the 1990s be proved right after all?

The evidence does not yet show a strong trend in urban declustering; perhaps it is too early to see a clear direction. Despite the shock of the COVID-19 pandemic, some cities seem to have come back strongly. If rising rents in Singapore and Dubai are any indication, certain global hubs have made significant gains in the post-COVID world. Cities in India continue to expand at a pace where local municipalities struggle to keep pace.

Perhaps this is the lull before a storm, but many cities seem to be thriving even in an age when face-to-face interaction is no longer about physical meetings. Increasingly, ideas are being generated and disseminated digitally, and going to office is seen as an occasional necessity in many sectors. At the same time, other cities seem to have suddenly lost their charm. So, what keeps some cities ticking while others decline? A comparison between relative winners and losers may provide some answers. As we will see, the available evidence of the post-COVID period seems to violate Richard Florida's creative class thesis.

Dynamics of the Post-COVID World

Transparent and consistent data for the post-COVID world is not yet available, but the Urban Land Institute's Asia Pacific Home Attainability Index 2023 provides some interesting insights about the relative trends between cities.

According to the report, Singapore's private homes have surpassed Hong Kong SAR as the most expensive in the region, with a median price of US\$1.2 million. This is partly due to a spike in Singapore but also a decline in Hong Kong. The latter saw home prices drop substantially in 2022, returning to 2017 prices, caused at least partly by a drop in population. This was the third consecutive year of population decline for Hong Kong – with net outflow of 60,000 residents reported by Hong Kong's Census and Statistics Department – even as the birth-to-death ratio plunged. The fall in real estate price brings no respite as the signs are that this declustering is accelerating. Meanwhile, CNBC notes that the opposite seems to be happening in Singapore as net inward migration, much of it from Hong Kong, is driving up real estate prices, despite its own problem with low birth rates.

The relative fortunes of Singapore and Hong Kong are mirrored in some ways in what is happening within the United States: the movement of people from California to Texas, and from New York metropolitan area to Florida. Again, this is not the movement of retirees to cheaper locations. There are few systematic studies of the post-COVID acceleration of a phenomenon that was becoming visible even before the pandemic. The evidence pulled together by



Post-COVID net inward migration in Singapore has driven up real estate prices.
Image: Alex Qian / Pexels

Neither the pandemic nor technological change seem to have changed perceptions that Indian cities are among the world's fastest growing.

a moving company Storage Café suggests that the median migrant is an educated millennial. A survey of 100 companies that moved to Texas since 2020 found that 40% were from California, which includes high profile entrepreneurs like Elon Musk.

The situation in Europe is more complicated. The Financial Times reports that London continues to see modest population growth despite Brexit and Britain's economic woes, but it is bleeding its youth. Population in the 25-39 age group has dropped. As this group abandons London, the number of children too has fallen, leading to the closure of primary schools and kindergartens. High real estate prices have been cited as the cause of youth flight, but who is moving in? Good data is not

available for the post-COVID period but anecdotal information suggests strong demand from wealthy investors from South Asia and the Middle East. In other words, young talent is being replaced by semi-resident, older foreigners.

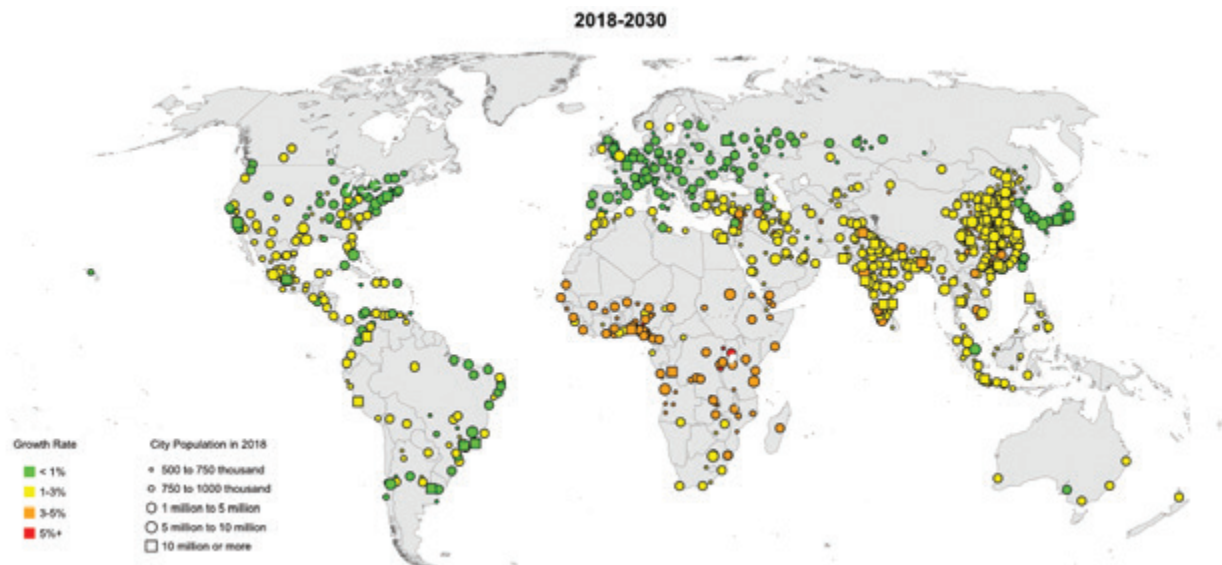
Similarly, a study by Oxford Economics of the fastest growing cities of Europe provides some interesting insights on how growth dynamics perceptions have changed after COVID-19. Till 2019, the perception was that Istanbul was the most economically dynamic place in Europe, followed by Sofia and Bratislava. In other words, South-Eastern Europe seemed to be the most dynamic in the pre-COVID era. They have since been replaced by Warsaw, Budapest and Prague in the top three positions (see Table 1). Inner London has dropped from 9th to 17th position, but Istanbul's drop is especially steep from 1st to 16th.

Meanwhile, India is witnessing very rapid urbanisation and the pandemic shock seems to have had little long-term impact. The UN's World Urbanisation Prospects report of 2018 had placed Indian cities among world's fastest growing (see map and Table 2). The same report is not yet available for the post-COVID period but reports by other agencies still routinely place the likes of Delhi-National Capital Region, Bengaluru and Hyderabad among the fastest growing in Asia-Pacific and/or the world. Indeed, Oxford Economics places Bengaluru and Hyderabad as the two fastest-growing cities in Asia-Pacific in 2023. In other words, neither the pandemic nor technological change seem to have changed perceptions. In contrast, after having defied national demographic trends for years, Tokyo has finally begun to shrink.

Fastest-growing major European cities by GDP over the next 5 years (2020-24 and 2022-26)

	RANK IN DEC 2019 FORECAST	RANK IN MAR 2022 FORECAST
Istanbul	1	16
Sofia	2	5
Bratislava	3	7
Warsaw	4	1
Bucharest	5	11
Budapest	6	2
Stockholm	7	12
Oslo	8	14
Inner London	9	17
Prague	10	3

Table 1. Warsaw, Budapest and Prague replaced Istanbul, Sofia and Bratislava as Europe's most economically dynamic cities.
Source: Oxford Economics



Africa, India, and East and Southeast Asia have higher projected population growth rates.
 Source: © 2018 United Nations, DESA, Population Division.

The world's ten largest cities in 2018 and 2030

CITY SIZE RANK	CITY	POPULATION IN 2018 (THOUSANDS)	CITY	POPULATION IN 2030 (THOUSANDS)
1	Tokyo, Japan	37 468	Delhi, India	38 939
2	Delhi, India	28 514	Tokyo, Japan	36 574
3	Shanghai, China	25 582	Shanghai, China	32 869
4	São Paulo, Brazil	21 650	Dhaka, Bangladesh	28 076
5	Ciudad de México (Mexico City), Mexico	21 581	Al-Qahirah (Cairo), Egypt	25 517
6	Al-Qahirah (Cairo), Egypt	20 076	Mumbai (Bombay), India	24 572
7	Mumbai (Bombay), India	19 980	Beijing, China	24 282
8	Beijing, China	19 618	Ciudad de México (Mexico City), Mexico	24 111
9	Dhaka, Bangladesh	19 578	São Paulo, Brazil	23 824
10	Kinki M.M.A. (Osaka), Japan	19 281	Kinshasa, Democratic Republic of the Congo	21 914

Table 2. Indian cities are among the world's fastest growing.
 Source: United Nations

What is Driving the Urban Divergence?

As discussed above, there seems to be big shifts taking place post-COVID in the prospects of cities around the world - from Hong Kong to Singapore, Californian cities to Texan cities, Istanbul to Warsaw. Yet, there are places like India, where neither the pandemic nor the explosion of digital technologies, are disrupting overall trends. While these are still early days, can we derive any general insight from these shifts?

The literature on urban clustering between 1995-2020 made much of the importance of "soft" factors, such as the "creative class", "lifestyle", "urban buzz", and so on. Influential writers like Richard Florida did much to popularise this view. This is what made Manhattan and San Francisco "cool" even as Singapore was deemed too "strait-laced".

Yet, the underlying pull and push forces the post-COVID urban dynamics described earlier seem to lean towards "hard" factors. For instance, the push factors often given by people leaving Californian cities include perceptions about increase in crime, high real estate prices, and a decline in business-friendliness; for Hong Kong, it relates to perceptions about rule of law; for Istanbul, it relates to macroeconomic and political stability; while Tokyo has fallen victim to Japan's demographics. It is beyond the scope of this

paper to explore whether these perceptions are justified, but there is indication that these issues have an impact on urban dynamics.

Similarly, the pull forces driving the rising cities of the post-COVID era are mostly hard factors: Singapore is benefitting from perceptions about rule-of-law and business friendliness; Dubai from low taxes; Texas from perceptions of business friendliness and cheaper homes, and so on. Indian cities are being driven by the raw agglomerative

power of economic growth and young demographics. This is not to suggest that Dubai, Warsaw, Delhi and Singapore do not have a creative class or offer lifestyle. However, it can be argued that the creative/lifestyle aspects are the outcome of growth, and not the cause. No one moves to Dubai, Warsaw or Dallas because of the great restaurant scene, but the agglomeration of successful people drives the demand for such restaurants. This turns Richard Florida's thesis on its head.



Indian cities like Bengaluru, Asia-Pacific's fastest growing city in 2023, continue to witness rapid urbanisation, with little impact from the COVID shock.

Image: Andrea Leopardi / Unsplash

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Hard pull and push factors, such as crime, tax rates, demographics, economic growth, rule-of-law, macro-economic stability and business-friendliness may have returned as the main driving force of cities.
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Conclusion

This paper is not aimed at making the case that soft factors and the creative class do not matter, but merely argues that hard pull and push factors, such as crime, tax rates, demographics, economic growth, rule-of-law, macro-economic stability and business-friendliness, may have returned as the main driving force of cities. This is what explains the current rise of Dubai, Singapore, Dallas, Houston, Warsaw, Delhi and Bengaluru, as well as the relative decline of Los Angeles, Hong Kong and Istanbul. The so-called creative class is mobile and will easily relocate wherever the opportunities emerge. In the post-COVID era, Richard Florida's creative class may be outcome rather than the cause of urban success.

At the very least, there is a case for going back to the drawing board and re-evaluating many of the rules-of-thumb and received wisdom of the last 25 years in light of the new evidence that is emerging. In the end, cities have existed through history for a variety of reasons, ranging from commerce and administration to culture and religion. Driving forces change with the times as technology, social mores and economic dynamics evolve. A certain set of circumstances drove successful cities in the 1995-2020 period, but there is a case for looking at the emerging evidence for a sense of what will drive growth in the next 25 years. 🗨️