An Urban Doom Loop? Not So Fast!

Economic Perspectives
by Hugh F. Kelly, PhD

The French have a saying, “plus ça change, plus c’est la même chose,” meaning the more things change, the more they remain the same. It is perhaps the signal feature of modernity that modern society favors change. In this, the French and Americans share a bias going back to the late eighteenth century, when both societies pursued change through revolutions.1 History has highlighted the assistance of the Marquis de Lafayette as well as the French assistance in the form of money, armaments, and naval support without which the American victory over the British could never have been achieved.2

Indeed, it might be said that without change there is no such thing as history. And it is equally true that without critical thinking, there is no such thing as history, but Thucydides cautioned that “people are inclined to accept all stories of ancient times in an uncritical way…. Most people, in fact, will not take trouble in finding out the truth, but are more inclined to accept the first story they hear.”3

The discipline to investigate stories, to weigh them in the crucible of evidence and experience, continues to be needed today. We are reminded to be wary of the “narrative fallacy,” the tendency to weave large stories with supposedly broad implications out of partial and perhaps ephemeral bits of information.4 That is likely what we are seeing in the current proclamation that America’s cities are in the grip of an “urban doom loop,” with perhaps irreversible consequences for real estate values. The catchphrase urban doom loop gained currency in the COVID-19 dislocation, and stems in large measure from research by

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3. Thucydides, History of the Peloponnesian War (New York: Penguin Classics, 1972). Thucydides was a rough contemporary of Herodotus in the fifth century BCE, and the two are generally recognized as the earliest historians.

Columbia University’s Stijn Van Nieuwerburgh. The most substantive of his recent papers was published in November 2022 by the National Bureau of Economic Research (NBER). In it, he examines data for the pandemic period (2019 to mid-2022) and then presents forecasting models that suggest urban economic losses and real estate market value declines will be substantial and long-lasting. Van Nieuwerburgh presents a detailed and careful review of implications for employment, innovation, productivity, and municipal finance as well as the expected consequences for real estate investment values, especially as reflected in publicly traded instruments such as REITs and CMBS. In a classic case of internet thought dilution, however, the business and popular press as well as the blogger legion have latched on to the urban doom loop catchphrase without the original author’s sense of discipline and academic caution.


8. The matrix is drawn from a forthcoming textbook by Merrie Frankel, Hugh Kelly, and Constantino Korologos, Real Estate Capital Markets: Evolution, Structure, Participants (San Diego: Cognella, 2023), chapter 6. The matrix shows Leibniz’s Axiom at the interaction of cycles and trends. German mathematician Gottfried von Leibniz notably observed that “nature has established patterns originating in the return of events, but only for the most part.” That axiom means that even as cycles work toward equilibrium or regression to the mean, the cyclical pattern ends at a different point from the beginning—it does not return to square one. That’s why the study of risk treats decision-making as one of probabilities, not certainties. See Peter L. Bernstein, Against the Gods: The Remarkable Story of Risk (New York: John Wiley & Sons, 1996), 4–5.

Disruption + Cycles = Chaos

Real estate investment professionals monitoring cycles do so with an eye toward the future, rather than a simple interest in how the past has brought us to the present. They seek advantage in anticipating how cyclical movement, predicated on fluctuations around equilibrium, will more or less predictably drive toward the next phase of market conditions. Predictability, then, helps such investors achieve tactical advantages in getting ahead of change, at least notionally.

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The Phenomenon of Change

As I see it, a more careful and nuanced understanding of the phenomenon of change would help a lot in assessing the outlook for cities and for real estate. The real estate world has long understood that change comes principally in five basic forms: cycles, trends, maturation, change of state, and disruption. In our complex world these basic forms of change are rarely found in their pure state. Most often we find the forms of change interacting in some combination, as illustrated in the Exhibit 1 matrix.

Since the pandemic of the 2020s can be identified as a disruption, we should examine how that interacts with the other four common types of change. The various interactions and the results of each interaction are named in the far-right column of the Exhibit 1 matrix. Let’s consider in more detail two results from disruption interaction—chaos and vector break.

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Disruption, though, is about unpredictability, or discontinuous change. Recognizing that even in disruptive conditions there remains a powerful
tendency of cyclical patterns to assert themselves, investors are left to cope with countervailing forces leading to uncertain outcomes. Although it is rarely called by name, much less treated as an accurate descriptor of real estate capital markets, science is increasingly willing to apply a specific term to this condition—chaos.⁹

The impact of disruption on real estate and economic cycles can be best understood by recognizing that real estate markets are complex adaptive systems. The literature on the behavior of such systems is extensive. A basic observation is that complex systems are ensembles with a dynamic of interactions, but a system’s behavior may not be predicted merely by the behavior of its components.

To be clear, “complexity” and “chaos” are not synonyms. However, scientists such as Betten-court et al. who study complex adaptive systems carefully assert that such systems may function on the edge of chaos. These scientists employ the rigor of advanced mathematics to understand system behavior and do so to surprising effect.¹⁰ Nevertheless, progressive adaptation promotes an increase in diversity. In the words of one author, “complexity breeds diversity, which increases complexity, which breeds diversity.”¹¹ Put another way, such systems are co-adaptive and at a very minimum should be understood as ill-suited for the simplification normally articulated in the predictions of cyclical recurrence.

Both the economy as a whole and cities as a particular subset can be studied as complex adaptive systems moving on the edge of chaos. One key insight on the economics side is that perhaps equilibrium is not all it is cracked up to be. Instead of developing expectations based on the state of a system that never truly settles down, perhaps we need a perspective that emphasizes comprehension and explanation.

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⁹. This term has spread widely into popular discussion. An early treatment of the phenomenon was by James Gleick, *Chaos: Making a New Science* (New York: Viking, 1987) explored the butterfly effect or “sensitive dependence upon initial conditions” as a way to understand the unpredictable ramifications of apparently small differences upon changes in a system.


The study of urban change, in line with the work of Bettencourt et al., has been intensively pursued by Michael Batty of University College, London, and others. Batty explores the impact of scale (urban size) and hierarchy (a city’s rank-order in a network of cities). These are factors that not only differentiate urban areas from each other but also help direct the kinds of land use (e.g., building forms) most likely to be economically successful. Naturally, this investigation needs to consider the pace of growth, but here a new factor of uncertainty is introduced. Batty and others have noted that the acceleration of growth factors in a city (however desirable such growth may be), interacting with each other over time, can have a destabilizing effect physically, socially, and economically. Focusing on dynamics, Batty says, “we consider disequilibrium to be a more characteristic state of urban systems” than stability and relative predictability.

If nothing else, such analysis cautions us against jumping to conclusions about what the pandemic disruption portends for expected future performance in real estate cycles.

**Disruption + Trends = Vector Break**

There seems to be a consensus that the world is now in a post-COVID period, although I think a better term would be late-COVID period, as the coronavirus is still active globally. For the week ending July 12, 2023, there were 191,922 new cases of COVID-19 and 647 deaths registered by the World Health Organization (WHO). Beyond the raw numbers of cases and deaths, the disruptive impact of the novel coronavirus must be considered in terms of the aggregate social and economic dislocation experienced over the course—still not completed—of this deadly disease. Such disruptive changes cannot be turned off like a spigot. Even if new cases and deaths fell to zero, the worldwide impacts would linger.

The progressive urbanization of the American economy is one of the longest and most well-established trends affecting US real estate as a whole. The urban doom loop narrative anticipates that COVID is causing a vector break, a disruptive shift with a long-term consequence of greater population dispersion from the cities.

The percentage distribution of the US urban population measured in all decennial census counts is presented in the Exhibit 2 graph. The COVID pandemic appeared to interrupt that upward trend in urbanization, first seen in the flattening of the curve in 2020, and then in an absolute decline at the height of the public health emergence in 2020–2021. The 2020 drop in population was most acutely felt in urban areas with populations of one million or more, while smaller metros sustained modest growth, and non-metropolitan areas saw their first increase in population in years. Net domestic migration accounted for

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14. That brought the world cumulative total to 768 million cases and 6.95 million deaths, figures that the WHO acknowledges are likely to be substantial undercounts. In the United States, cases have surpassed 103 million, with 1,127,157 deaths attributed to the virus. Data from the WHO Coronavirus (COVID-19) Dashboard, data accessed on July 18, 2023, https://COVID19.who.int/.
15. According to the US Census Bureau, “Urban areas, defined as densely developed residential, commercial, and other nonresidential areas, now account for 80.0% of the US population.” Press Release CB22-CN.25, December 29, 2022. As the Exhibit 2 graph shows, the United States became a majority-urban society around 1920. Globally, the urban population surpassed the 50% mark in 2007, according to UNESCO estimates.
the differential, although population growth in major cities was also hampered by sharply reduced international migration and the jump in mortality triggered by the coronavirus.

Digging more deeply into the data, the metro areas with the greatest numeric losses were New York, Los Angeles, San Francisco, and Chicago. While large metro areas in the Sunbelt continued to grow, even markets such as Dallas, Phoenix, Houston, and Austin saw their expansions decelerate. Does this indeed indicate a shift in the historic vector of urban growth? And what might that mean for real estate use and property investment?

Candidly, this seems to be an open question as of this writing (in July 2023). Demographically, the tide of population out-migration appears to at least be ebbing, if not reversing. The years 2021 and 2022 did not seem to be strong candidates for an urban rebound, given unemployment followed by inflation and political turmoil in that period. These factors prompted many to head out of cities in search of more affordable options perceived to offer a better quality of life. Yet of the nation’s 50 largest cities, 46 experienced renewed population growth in 2022. The exceptions (those decreasing in population) were Baltimore, Detroit, Memphis, and Milwaukee. New York, Houston, Dallas, and Phoenix all bounced back moderately, while urban areas like Atlanta, Austin, Charlotte, Denver, and Seattle all enjoyed significant population expansion in 2022.

Given the long-term trend of urban growth, why should there be any surprise that major cities would prove resilient? The answer, at least in part, can be attributed to the narrative fallacy mentioned earlier. Harvard economists Edward Glaeser and David Cutler confronted such expec-

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Economic Perspectives

market distribution is 26.4 million jobs in the 24-hour metros, 22.3 million jobs in the 9-to-5 metros, and 11.1 million jobs in the 18-hour metros. And while US productivity averages $130,400 per worker (GDP/employment), these 21 markets are well above the national norm: $149,400 per worker for the 24-hour cluster; $143,100 per worker for the 9-to-5 cluster; and $138,200 per worker for the 18-hour cluster.²²

**Benchmarks of Sustainable Demand**

For real estate investors, labor market and productivity metrics are key benchmarks of sustainable demand. In brief, output reflects revenue and output per worker contributes to profitability. Profits are what enable tenants to pay the rent, and that in turn is what supports property values. So, it should not be surprising that investment capital is attracted to cities where high-revenue, high-productivity, and substantial labor markets are concentrated.

When it comes to aggregate commercial property investment for the four quarters through early 2023, the chart in Exhibit 4 demonstrates that the 21 selected metros punch above their weight. The 24-hour group, at $10.6 billion, shows a 24% share of total volume, with the 9-to-5 cluster close behind at $9.9 billion, or 23%. The 18-hour group, which has garnered much attention with the fast-growing Sunbelt rising stars, tallies $3.1 billion in investment real estate deals, a 7% share. For the rest of US markets, while the pie chart seems to indicate diffused investor interest with $19.7 billion, or 46%, remember that this is divided among 345 MSAs, or 94% of all metro areas.

There is an additional nuance to take into consideration with the benchmarks. The taxonomy classifies the 21 metros based on their characteristics as observed over the period from the late 1980s through 2014. During that period, investors enjoyed superior performance in the 24-hour cluster as measured by total returns in the NCREIF portfolio; this made such metros a capital magnet as monitored by the broader investment flows reported by Real Capital Analytics (which has since been acquired by MSCI). But this did not go unnoticed by those markets in the 18-hour and 9-to-5 categories. Many of those cities have made a deliberate attempt to replicate the live-work-play profile of the 24-hour cities. The following presents a few examples.

- Atlanta has grown its Midtown area into a dense, mixed-use district. Not only is there an office core, but convenient walk-to-work

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rental housing and condominiums fill the neighborhood. Atlanta’s High Museum and Symphony Hall are here. Piedmont Park and the Atlanta Botanical Gardens provide significant outdoor amenities. There is a rich assortment of eating and drinking establishment cultivating nightlife.

• Los Angeles has, over time, taken a struggling downtown and established a vibrant corridor running from the Disney Center at the head of Bunker Hill to the Staples Center in the South Park neighborhood. Los Angeles, long synonymous with automobile traffic congestion, has invested in a mass transit system facilitating commuting. Downtown Los Angeles added 19,500 residential units for the decade ending 2022, boasting a population of more than 82,700.

• San Diego’s Gaslight District and Denver’s LoDo have staked a claim to national attention in reclaiming formerly tattered areas and making them showcases for those cities’ urban cores. Likewise, Austin and Nashville have parlayed the mix of entertainment, commercial businesses, government, and top educational institutions and have become vibrant attractors of both corporations and new residents.

• Recently, Philadelphia has appointed a “director of the night time economy” to advance its status toward 24-hour robustness.

So, as New York and San Francisco have taken the brunt of the COVID disruption, other metros are not running away from the 24-hour city model. The doom loop narrative seems to be at least premature, if not ultimately mistaken. This is, in my experience, at least the fifth time that New York has been written off. The current troubles pale compared to New York’s 1970s Fiscal Crisis, where the city lost 800,000 residents and 600,000 jobs. At the height of the crack cocaine crime epidemic, the sunset of Gotham was widely proclaimed. After 9/11, the conventional wisdom was that companies would flee Manhattan as a permanent target of terrorism. The Global Financial Crisis was expected to harm the world’s financial center as its major banking institutions melted down.

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23. During this era, the 44-story 1166 Sixth Avenue building, which opened in 1976, was famously referred to as “the towering fiasco” as it sat vacant for years; however, by 1979 the market had picked up and it was occupied and functioning. See Leonard Sloane, “New Episode in the 1166 Saga: Success at Last,” New York Magazine, https://bit.ly/3YaCx1E.


25. The present author, to the contrary, published research suggesting that the behavior of displaced firms that were in or near the World Trade Center on 9/11 predicted a successful return of Lower Manhattan if Ground Zero were rebuilt as commercial office buildings and related facilities. See Hugh F. Kelly, “The New York Regional and Downtown Office Market: History and Prospects After 9/11: A Report for the Civic Alliance” (August 9, 2002) and “A Planning Framework to Rebuild Downtown New York,” The Civic Alliance Draft Report (Regional Plan Association, 2002).

There is at least a solid probability that the doom-saying around cities in 2023 will prove an excessive, perhaps myopic, reaction to the undeniable challenges of the late-COVID era.

To return to the era of America’s founding noted in the opening to this essay, Thomas Jefferson and others articulated what has been an anti-urban bias that has persisted in our history.\(^\text{27}\) Jefferson wrote, “I view great cities as pestilential to the morals, the health, and the liberties of man.” Yet, as the data presented earlier show, cities—and particularly the “great cities”—are the engines of America’s economic prosperity. They have proven resilient over the course of nearly 250 years of US history, and I expect they will again rebound as we pass through the 2020s.

About the Author

Hugh F. Kelly, PhD, CRE, has been the principal of Hugh Kelly Real Estate Economics, based in Brooklyn, New York, since early 2001. From 1978 to 2001 he worked in Landauer Associates’ Valuation and Technical Service division and was the principal author of the firm’s annual real estate market forecast and served as its chief economist. Kelly holds a PhD in real estate and the built environment from the University of Ulster, Northern Ireland. A member of the Counselors of Real Estate since 1989, he served as its international chair of the board in 2014. His book, 24-Hour Cities: Real Investment Performance, Not Just Promises, won the 2017 Gold Award from the National Association of Real Estate Editors. Contact: hughkelly@hotmail.com