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On the issue of revitalization of urban real estate in the post-COVID world

The structural labor market crisis, being one of the main consequences of the COVID-19 pandemic, caused a significant correction in the real estate sector. Given its well-known features, state support measures are aimed at preventing stagnation in the real estate development. The loss of investment attractiveness by infrastructure-focused projects not only hinders the market recovery, but also deprives the economy of a promising advantage due to less intensive investment activities, reducing the number of new well-paid high-tech jobs associated with the operation of commissioned construction projects.

The pandemic adjusted urban planning plans that now take account of the suburban migration of the working urban population. The study allowed to systematize the factors influencing the business activity in suburban construction. State support measures are crucial there; they range from the project funding for low-rise buildings to the expansion of mortgage programs that support the demand for realty developed outside of urban areas.

A decline in the population density in the historic centres of cities also requires a new wave of occupancy, that ranges urban residents by the income, marital status, professional structure, forms and types of employment, etc.

Having studied real estate restructuring trends, shaped by the national development priorities in the context of the coronavirus crisis, the author added new urban space vitalization requirements, taking into account the synchronization of settlement "counter waves", new housing elevators, the technological renewal, etc., that will bring in new resources, among which human capital becomes a development trigger.

Keywords: *urban space, historic centre, structural factors, vitalization, real estate, suburban construction, problems and challenges of the pandemic*

One of the most important consequences of the COVID-19 pandemic is the structural crisis that has been underway in the labor market of developed and developing economies for quite a long time. Statistics showed a steady increase in the corporate labor productivity and profits; however, real wages remain unchanged or even decline. In fact, the cost of human capital has remained unchanged in recent years, while production capacity has increased its potential. The analysis of the situation, conducted by the University of Denver, showed that these factors, coupled with the pandemic, significantly aggravated the income inequality, both within and between the countries [1]. In almost every country, the share of the middle class has declined, breaking all record lows. State support measures have turned from a stimulating factor into a necessity, due not so much to the problem of development as to the task of survival [2, 3].

The growing influence of state regulation and state support cannot but affect the emerging trends of the post-covid development. The inevitable inflation of the productive capital, which manifests itself in the sale of assets and job cuts, causes the revaluation of all types of assets, including real estate, industrial and raw materials, which is a straight way to a slow-down in business and investment activities [4]. As a result, the state of any country takes measures to improve the economic environment, primarily by issuing emergency loans to businesses and local authorities and developing infrastructure construction, mortgage programmes, etc. It is quite obvious that regardless of where public investments will be directed (the construction of roads, schools, kindergartens or stadiums), they will create new jobs, which will replenish the income of citizens, and, consequently,

increase their purchasing power, which, as we know, precedes the growth phase of any business activity.

A fundamental study by professor Haider Hahn [1] shows that investments in green development projects actually create more jobs than other types of undertakings. Thus, "green" investments outstrip the number of jobs created by investments in non-military sectors of the national economy by 1.5 times, and in the defense complex — by 2.2 times. Given that nowadays construction and real estate serve as development triggers in the Russian Federation [5], the "greening" of construction technologies and the living space in general is an emerging trend in sustainable development. First of all, it deals with the development of cities that refine their development goals, revise their programmes and projects, encourage large companies, including those focused on real estate, by improving the terms of debt servicing and providing loan-focused and financial assistance.

The expert community is sure that the main beneficiaries of the pandemic include business service providers, public catering, the travel industry and the construction sector¹. Meanwhile, the global community has seen a steady increase in the housing availability over the past 10 years, which allows to treat the housing segment of the real estate sector as the most viable constituent of the national economy. This is especially true for historically developed cities. Their population growth contributes to the active development of the service industry, the social security industry, public spaces, etc. Meanwhile, the pandemic has identified a number of problems in the urban real

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¹ Gaidar Forum — 2021 "Russia and the World after the Pandemic". URL: <https://gaidarforum.ru/ru> (rus.).

▶ estate development. The analysis carried out in Kazan, Russia, has shown that:

First, in the days of the coronavirus crisis in Kazan in 2020, due to the 40 % level of the office use, the closure of the majority of urban hotels and all shopping centers at the peak of the virus, as well as the maximal use of remote employment opportunities, the historic centre of the city "depopulated". The temporary relocation of citizens outside the city reduced the population of its historic centre by 35 % of the total number of citizens residing there. This led to the closure of catering establishments, small convenience stores, as well as, even in the conditions of a return to the regular lifestyle, the break-even point of shopping centres. In general, the population density of the historic centre of Kazan decreased from 30 residents per hectare to 24 residents per hectare, which is 1.6 times below the optimal population density in a large city [6–8]. This means that we cannot expect a high efficiency of investments in the infrastructure or operating cost savings. Also, according to foreign scientists, indicators of accessibility, connectivity, permeability and trafficability of the urban environment [9–11], as well as the level of manageability, environmental quality and socio-cultural development will be significantly lower in the cases of excessively high and low population density. There is no doubt that the current situation reduces the economic security of the key functions of the territory (jobs) in the centre of Kazan. The balance between different types of real estate is disrupted by excessive retail, entertainment, hotel and office spaces. Thus, the potential of new housing construction in the historic centre of Kazan has increased and, according to the experts, it has reached 700–800 thousand square meters.

Secondly, the pandemic has brought about some opportunities for the suburbs of Kazan. Remote employment, that has become possible due to the availability of medical, education, culture, entertainment and sports services, as well as a comfortable urban environment, has boosted the demand for low-rise residential buildings close to the nature and within the walking distance from commercial real estate facilities, especially those in the historic centre. Especially promising in this regard is the intensification of suburban low-rise construction. It is not by chance that the suburban real estate market turned out to be the development driver in Tatarstan. Remote employment and foreign travel restrictions have given rise to the need for a "country house" lifestyle. But due to the influence of a number of factors, the demand "is down". First of all, market factors stepped in. Thus, purchase prices for suburban real estate went up by an average of 20 % in the Kazan agglomeration in 2020 for the two main reasons:

1) the limited supply of low-rise real estate. Almost all items offered for sale in the existing settlements and those in construction are already sold, and many new projects were frozen during the pandemic and the lockdown;

2) the analysis showed that the cost of construction increased due to a combination of factors: rising prices for building materials (for example, wood prices went up two-fold as a result of the growing demand in the United States, China and Europe) and the workforce (temporary workers from neighboring countries, who left for places of their permanent residence, could not come back) [12, 13].

In addition, it is not possible to forecast cash flows in an uncertain environment. Consequently, risks are growing for all suburban real estate market players. How the anti-covid campaign will develop, how large the deferred demand will be, what the real level and dynamics of the household income is, which of the customers and contractors will remain on the market, what scale of bankruptcies is

possible, etc. — these questions can only be answered by the practice itself^{2,3}.

The need for the technological substitution will have a significant impact on development trends in suburban construction in the post-pandemic recovery period, since more expensive construction materials (metal, wood, etc.) will be replaced by the new ones that require the application of new construction technologies.

There are almost no large high-tech developers in Kazan. This fact will complicate construction management and quality control. They are not expected to appear too soon, and conversion of multi-level construction technologies is impossible. Hence, appropriate policy measures are needed. However, state support measures are clearly limited, both in terms of the formal nature of mortgage programmes, subsidiary support for suburban construction, and due to the actual lack of project funding. The development of project funding mechanisms for suburban low-rise construction will link the tools of project funding and mortgage lending.

In addition, the insufficiency of social real estate that must accompany residential real estate (kindergartens, schools, hospitals, etc.), as well as the poorly developed transport infrastructure reduces the liquidity of constructed facilities. In this regard, it is obvious that it will be impossible to create a comfortable suburban environment without budgetary allocations.

From the point of view of the quality of low-rise construction, we note that the low level of its industrialization, coupled with the multiplicity of small developers, does not allow to build an effective quality management system focused on suburban real estate.

Thus, suburban construction that meets the needs of the population, will require a system of state support measures in order to maintain effective demand, a transfer to industrialized construction, and create the infrastructure for a comfortable suburban environment.

In general, in this context, the target development focus of the real estate sector is reduced to the vitalization of the living space. However, it is necessary to bear in mind that deserted centres of historic cities, on the one hand, reduce the load on the transport infrastructure and physically outdated utilities, and, on the other hand, they affect the economic efficiency of commercial real estate items due to the lower commodity turnover and demand for services. The author has identified another regularity: empty buildings and structures have revealed obvious imbalances and pathogenic urban zones (Fig.). Before the crisis, they were unclear. Among them are:

a) the functional duplication of several types of real estate facilities. Thus, chain grocery stores were often located in close proximity, or beauty parlours even shared the same buildings. This is a reason to adjust urban development plans;

b) the deterioration of a number of real estate facilities, including historic housing and offices in large cities, which requires the demolition of dilapidated buildings and the refinement of the major repair programme;

c) the littering of certain areas in city centers (gutters, park areas) that need an improvement to be followed by the unlocking of their hidden investment potential;

d) an excessive number of cultural and entertainment facilities in certain "spots". In this regard, functional restructuring becomes an essential part of refined urban development plans;

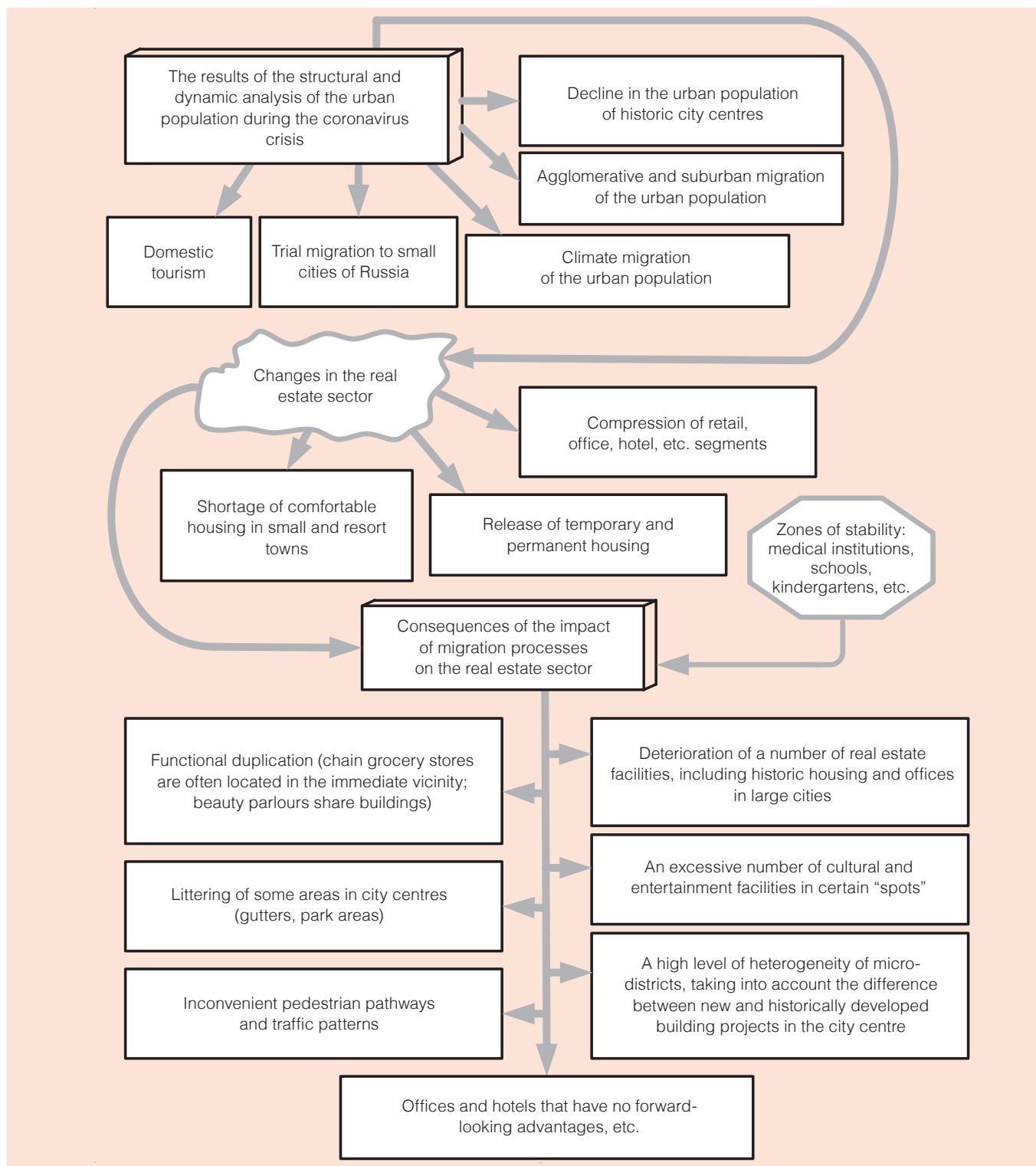
2 The impact of coronavirus on the construction industry. URL: <http://konkir.ru/articles/stroitelstvo/vliyaniye-koronavirusa-na-stroitelnyuyu-otrasl-anton-moroz>

3 COVID-19: how the countries of the world support the construction business. URL: <https://realty.rbc.ru/news/5e8efebc9a79471ea1ab0065>

e) inconvenient pedestrian pathways and traffic patterns. The expansion of the Big Kazan Ring and the construction of the ring rail-road will relieve the traffic and significantly reduce the travel time and transport accessibility;

f) a high level of heterogeneity of micro-districts, which will need measures to increase the housing per capita in Kazan from 27 m² per person in 2020 to 35 sq. m. per person in 2035;

g) offices and hotel offices that do not have forward-looking advantages, etc. The idea is either to convert them into residential housing, or to use this territory for the construction of small-size rental housing in a historical settlement. It is advisable to design apartments having few rooms (one, two bedrooms) as rental housing, so that the apartment area per capita reaches 18...24 m² per person in the estimated period up to 2035. The



▶ appropriateness of rental housing in the city centre is confirmed by the lower level of availability of social and cultural facilities close to this type of housing and the minimal areas of yards, which mean a higher construction density and the efficient use of the territory. Calculations have shown that 60...90 thousand m² of municipal rental housing can be accommodated in a historic settlement if it is funded by the municipality and subsidized by the federal and regional sources (for example, DOM. RF). From the point of view of territorial localization, these facilities can be constructed along the lanes of the Big Kazan Ring and the planned Ring railroad, since groups of such houses feature higher density due to smaller courtyards and the lack of such requirements as the accessibility of childcare institutions.

Therefore, the vitalization of historical centres cannot be reduced to the supplementation, completion, extension or reconstruction of existing items of real estate. It involves the rethinking of urban functionality that requires the reconstruction of industrial buildings and potential resettlement to new buildings and areas that are rebuilt and adapted for housing. The idea is not to neglect the buildup of several floors. About 200 buildings of the historic settlement have the potential for adding floors (approximately 1–3 floors) up to 15...17 m (4–5 floors), which is cheaper by about 30 % in relation to new construction, that can become the subject of the initiated Programme of major repairs and buildups.

It was the period of the coronavirus crisis that allowed to understand the significance of the “human factor”. Provided that the priorities of national development and parameters of the current budget policy remain unchanged and support the directions of structural maneuvers, urban spaces should not only be comfortable, but they should also be able to develop Man as the main resource of their development.

With regard to historically developed cities, we believe that the pandemic has only reinforced the earlier trends. In particular, difficulties are associated with residing in the city centres characterized by heavy traffic, developed office, retail, sports and entertainment real estate. This requires the revitalization of urban centres, which in turn gives rise to the need for the scientific justification of the processes of revitalization of urban centers and new waves of settlement.

The analysis and suggestions that take account of particular urban planning factors, allow to add a number of requirements needed to vitalize the space of historic cities. They include:

- 1) the synchronization of processes of urban residential and related real estate development, if built-up areas have identical or nearly identical functional content;
- 2) the technological renewal of multi-storied and low-rise construction towards maximal environmental friendliness of construction of buildings, structures, as well as the industrialization of construction processes;
- 3) the implementation of residence improvement mechanisms encompassing small-size rental housing, countryside cottages and urban-type estates;
- 4) the organization of a new wave of settlement in the historic centres of cities, with regard for the income inequality and differentiation of the urban population according to the age, marital status, employment, etc.;
- 5) the resource competitiveness, investment attractiveness and stimulating nature of revitalization processes.

The revised requirements for the vitalization of urban spaces do not exclude the equalization of comfort levels and long-term advantages (functional content, infrastructure support, transport

accessibility, etc.) in all urban districts, and they should also have access to the open and interactive mode of urban real estate vitalization processes implemented using information and communication technologies.

These requirements, formulated by the author, have systematized the creation of an investable environment in historically developed cities. Nevertheless, these requirements serve as a kind of a nucleus, which can be supplemented depending on the specific situation in each city. Triggers of revitalization processes may include traveling or medical services, art spaces or sports schedules, etc. Accordingly, there emerges a different type of a resource attraction mechanism, in which the decisive role is played by the human capital, which is in turn “attracted” to the points of investment and business activities.

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К вопросу о ревитализации городской недвижимости в постковидном мире

Структурный кризис рынка труда, будучи одним из основных последствий пандемии COVID-19, вызвал существенную коррекцию в сфере недвижимости. Учитывая общеизвестные особенности последней, меры государственной поддержки направлены на недопущение стагнации развития недвижимости. Потеря инвестиционной привлекательности инфраструктурных проектов не просто затормозит восстановительный рост, но и лишит экономику перспективного преимущества в связи с возникающим вследствие потери инвестиционной активности сокращением создания новых высокотехнологичных и хорошо оплачиваемых рабочих мест по эксплуатации введенных в действие объектов строительства.

Пандемия вынудила скорректировать градостроительные планы с учетом загородной миграции работающего городского населения. Проведенное исследование позволило систематизировать факторы, влияющие на деловую активность в сфере загородного строительства. Среди них решающее значение имеют меры государственной поддержки в диапазоне от развития проектного финансирования малоэтажной застройки до расширения использования ипотечных программ, поддерживающих спрос на объекты за пределами городских территорий.

Понижившаяся плотность населения исторических центров городов также потребовала организации новой волны заселения с учетом дифференциации горожан по уровню доходов, семейного положения, профессиональной структуры, форм и видов занятости и др.

В результате изучения тенденций реструктуризации сферы недвижимости, формируемых под влиянием национальных приоритетов развития в условиях преодоления коронакризиса, требования витализации городского пространства были дополнены автором с учетом синхронизации «встречных волн» расселения, запуска жилищных лифтов, технологического обновления и др., что позволит обеспечить ресурсное притяжение, в составе которого триггером развития становится человеческий капитал.

Ключевые слова: городское пространство, исторический центр, структурные факторы, витализация, сфера недвижимости, загородное строительство, проблемы и вызовы пандемии

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