



## KENAN INSIGHTS

# Where Are We Going? Lasting Changes to Working, Living and Traveling in a Post-COVID World

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## 7 FORCES RESHAPING THE ECONOMY

As the historic 2020 U.S. presidential election approaches, the economy continues to rank as voters' top issue – coming as no surprise given the unprecedented economic turmoil caused by the COVID-19 pandemic.

In this seven-part series of Kenan Insights, we offer a current and in-depth analysis of the findings in our latest report, which explores the economic challenges and opportunities facing our nation amid and beyond both the election and the pandemic. The Kenan Institute of Private Enterprise, in partnership with the North Carolina CEO Leadership Forum, has issued *Seven Forces Reshaping the Economy* to help decision-makers navigate these critical trends and offer pragmatic solutions to the economic shifts that are defining our new normal. ***This week, we look at how the pandemic has altered how and where we work, live, and play, both now and for the long term.***

By far the most significant changes driven by the COVID-19 pandemic have been where (and how) people go to work, play and even live. These shifts, which have had an immediate economic impact, will also have long-term effects, such as changes to business travel activity and on where people prefer to buy homes. As we get more comfortable with the new norms of social distancing and working from home, where we work, live and play will undergo lasting transformations. In this Kenan Insight, we outline which shifts will be temporary and which will have a more permanent impact.

### Where we work

Urbanization has been a powerful force in the modern economy and much has been written on the apparent growth of agglomeration economies.<sup>1</sup> However, the pandemic has forced important experimentation. Some industries, particularly those

<sup>1</sup> For an overview, see Glaeser, E. L. (Ed.). (2010). *Agglomeration economics*. The University of Chicago Press. <https://www.nber.org/libproxy.lib.unc.edu/chapters/c7977.pdf>

with workers in higher paying jobs requiring a college education — so-called “knowledge workers” — have learned that many such workers can remain productive at home.

We have also learned that working from home is not a viable option for workers in many jobs, especially for those designated as essential workers. This distinction carries socioeconomic implications, as 70 percent of essential workers do not hold a college degree and are more likely to have a household income of less than \$40,000.<sup>2</sup> A recent Kaiser Family Foundation survey found that 26 percent of essential workers have difficulty affording basic household expenses, compared to 17 percent of nonessential workers.<sup>3</sup>

<sup>2</sup> Kearney, A., & Muñana, C. (2020, May 1). *Taking Stock of Essential Workers*. KFF. <https://www.kff.org/policy-watch/taking-stock-of-essential-workers/>

<sup>3</sup> Ibid.

**Table 1: Demographics of Essential Workers**

	Currently Employed: Essential Workers	Currently Employed: Nonessential Workers
<b>By race/ethnicity</b>		
White, non-Hispanic	61%	72%
Black, non-Hispanic	15%	5%
Hispanic	16%	11%
<b>By household income</b>		
Less than \$40K	31%	19%
\$40K-<\$90K	35%	27%
\$90K or more	29%	49%
<b>By education</b>		
High school or less	35%	17%
Some college	35%	22%
College +	30%	61%

Source: KFF.org<sup>4</sup>

For those who can work remotely, research suggests that there exists a healthy balance between remote and traditional work, with many workers wanting to operate in a hybrid model of at-home and in-office work in the post-pandemic world.<sup>5 6</sup> Traditionally, office workers benefit from more frequent ad hoc interactions, leading to the free flow of ideas and other “soft” aspects of relationships with coworkers.<sup>7</sup> However, organizations will have to adapt to employees’ changing work location preferences and adopt new technologies that allow for better connectivity and collaboration in both in-person and virtual formats.

<sup>4</sup> Ibid.

<sup>5</sup> Bartik, A. W., Cullen, Z. B., Glaeser, E. L., Luca, M., & Stanton, C. T. (2020). *What Jobs are Being Done at Home During the Covid-19 Crisis? Evidence from Firm-Level Surveys* (Working Paper No. 27422; Working Paper Series). National Bureau of Economic Research. <https://doi.org/10.3386/w27422>

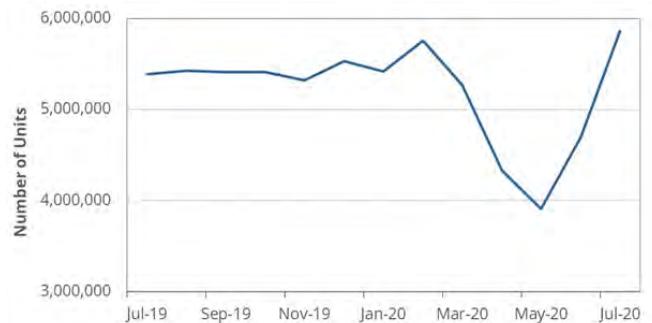
<sup>6</sup> Reuters. (2020, October 14). *Nearly nine of 10 workers want to keep work-from-home option: survey*. Retrieved from <https://www.reuters.com/article/us-health-coronavirus-wfh-survey-idUSKBN26Z055>

<sup>7</sup> Employees working from home are also more susceptible to burn-out. See Fox, M. (2020, July 28). *Remote work burnout is growing as pandemic stretches on. Here's how to manage it*. CNBC. Retrieved from <https://www.cnbc.com/2020/07/28/remote-work-burnout-is-growing-as-coronavirus-pandemic-stretches-on.html>

## Where we shop

The pandemic will affect demand for retail space in two ways. First, the trend away from brick-and-mortar retailing has accelerated. However, there will be a short-run bump in renovations that facilitate delivery, curbside pickup, and showroom and customer services. Second, restaurant and entertainment spaces will eventually expand in square footage because of a new preference for less-crowded spaces.<sup>8</sup> Office workers and other employees also want the amenities that come with living in or near a central business district (CBD), and those amenities will return once the current health crisis is over. To learn more about the changing trends in retail see *The Impact of COVID-19 on Food and Other Retailers*.

**Figure 1: Monthly Existing Home Sales in the U.S.**



Source: National Association of Realtors<sup>9</sup>

## Where we live

Demand for residential renovation and new-home building was strong in the third quarter of 2020, as more people needed the space to both work and live from home.<sup>10</sup> In July, existing home sales bounced back to pre-pandemic levels (See Figure 1), and

<sup>8</sup> Yet even with less retail, there will be an expansion of bars, restaurants and other establishments that serve people near their neighborhoods, as people will want nearby locations for familiarity and speed of service. See for example, Fulton, W. (2020, March 29). *How the COVID-19 pandemic will change our cities*. The Kinder Institute for Urban Research. Retrieved from <https://kinder.rice.edu/urbanedge/2020/03/30/how-covid-19-pandemic-will-change-our-cities>

<sup>9</sup> National Association of Realtors. (2020). *Existing-Home Sales*. Retrieved from <https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales>

<sup>10</sup> Ford, C. (2020, October 15). *Remodeling Industry Confidence Surges in Third Quarter*. National Association of Home Builders. Retrieved from <http://eyeonhousing.org/2020/10/remodeling-industry-confidence-surges-in-third-quarter/>

August saw the third straight month of positive sales gains.<sup>11</sup>

Because social distancing and other health measures are especially difficult to implement on public transportation, commuters are shifting away from mass transit toward driving to work (and thus increased commute times). For those in large metropolitan areas where driving is more costly, commuters will tend toward closer housing and even walking or other “personal transit” options (like bikes and scooters), especially as more cities have improved or increased pedestrian and bike pathways during pandemic lockdowns.<sup>12</sup>

Outside of cities, demand is increasing for second homes that can serve as “escape pods” or part-time work-at-home locations.<sup>13</sup> The trend of families with school-age children leaving urban areas to be near relatives (often aging parents) will accelerate. Altogether, given countervailing forces on central cities, there will be less-drastic net changes in the workplace and urban environments now that a vaccine is in sight. New opportunities in real estate will be outside of dense urban areas and in new residential construction and renovation.

## Where we travel

Travel is a major cost for many professional businesses and can have a large impact on profitability, and businesses now have a clear picture of what types of travel are most essential. The swift and widespread pivot to online meetings has changed how businesses operate, and we expect further innovations in technology that will allow for more personal virtual interactions and collaboration.<sup>14</sup> Likewise, conference hosting is a business that relies on high-density populations and travel and will be se-

<sup>11</sup> National Association of Realtors. (2020). Existing-Home Sales. Retrieved from <https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales>

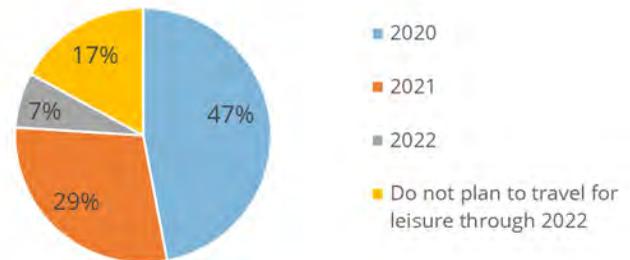
<sup>12</sup> Bliss, L., Lin, J., & Patino, M. (2020, June 18). Global Data Reveals Inequality of Pandemic Travel. Bloomberg. <https://www.bloomberg.com/graphics/2020-coronavirus-transportation-data-cities-traffic-mobility/?srnd=citylab-transportation>

<sup>13</sup> Olshan, D. (2020). Coronavirus Has New Yorkers Fleeing The City And Hunting For Second Homes. Forbes. <https://www.forbes.com/sites/donnaolshan/2020/05/10/coronavirus-has-new-yorkers-fleeing-the-city-and-hunting-for-second-homes/>

<sup>14</sup> Sindreu, J. (2020, August 11). *A Chunk of Corporate Travel May Be Gone Forever. But How Much?* The Wall Street Journal. Retrieved from <https://www.wsj.com/articles/a-chunk-of-corporate-travel-may-be-gone-forever-but-how-much-11597155657>

verely affected even in the long run. That said, there is still a vast business need for conferences, so new technological solutions will help satisfy this demand.

**Figure 2: When Do People Expect to Travel for Leisure?**



Source: The Harris Poll survey conducted online within the United States from June 25-29, 2020 among 2,000 adults ages 18 and older.<sup>15</sup>

Vacation travel will rebound more rapidly than business travel, but the demand will shift toward places where families can easily drive.<sup>16</sup> Many travelers will find areas they like and develop attachments and habits (which are traditionally very persistent for vacationers). Families will move away from more crowded destinations like amusement parks and urban destinations and toward family resorts, outdoor adventures and tours, and “residential” vacations, such as rental homes.

As we continue to see the United States surge with COVID-19 cases, it is clear that parts of our “new normal” may lead to permanent behavioral changes in the way we work and live. These shifts will have economic impacts that will ripple through the economy, even as hoped-for vaccines reduce health risks to individuals. Additionally, as an important U.S. election looms, it is critical that policy makers not lose sight of these shifts — especially their impact on vulnerable individuals disproportionately affected by the pandemic — and find ways to alleviate the tensions.

<sup>15</sup> The Harris Poll. (2020). *The Summer Travel Season*. Retrieved from <https://theharrispoll.com/the-summer-travel-season/>

<sup>16</sup> Sampson, H., and Compton, N. (2020, June 15). *11 Ways the Pandemic Will Change Travel*. The Washington Post. Retrieved from <https://www.washingtonpost.com/travel/2020/06/15/11-ways-pandemic-will-change-travel/>



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