Business Week

Most of the overbuilding during the housing bubble took place in outer-ring suburbs. They are also likely the places to be hit worst by the downturn

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July 12, 2008 BUSINESSWEEK

The 30 or so highway miles from Prince William County in Northern Virginia to Washington, D.C., are among the nation's most stress-inducing stretches.

The drive can last 40 minutes or a couple hours, depending on the intensity of traffic. Train service to the city is limited. And morning commuters sometimes line up for an hour-and-a-half just to be able to stand in a crowded D.C.-bound bus.

During the housing boom, the hassle of commuting was easily justified. The large, new homes going up at a feverish pace in Prince William County were a bargain compared to the older, smaller, and much more expensive condos and single-family homes in D.C. and its close-by suburbs.

A Crush of Foreclosures

Now that the boom is over and gas prices are more than $4 a gallon, Prince William County's housing market is in free fall. A crush of foreclosures have helped to force down median home prices about 32% in the last year, according to Metropolitan Regional Information Systems. Prince William County, like other outer-ring suburbs that were overbuilt during the housing boom, are now getting clobbered in these days of tight credit and scarce buyers. "We've never had a boom that lasted this long and where we've had so much growth in the economy," said Martin Nohe, a Republican member of the Prince William Board of County Supervisors. "But never has a boom ended so dramatically. When the bubble popped, it splattered all over the place."

BusinessWeek.com asked Zillow.com, which provides online home valuations, to analyze how home values have been holding up in large cities across the county compared to both inner and outer suburbs.

The results are fascinating. Annual price changes in most of the largest metro areas, including New York, Los Angeles, Chicago, Miami, San Francisco, Seattle, Baltimore, Washington D.C., and Philadelphia, followed a similar pattern: Values were most stable within a 10-mile radius of the center of the city, but generally worsened with each successive radius ring as far as 50 miles from the center of the city.

Not all cities kept precisely to the pattern, in part because of the complications of geography. In Washington D.C., for example, prices started improving in the 40-mile and 50-mile rings, most likely because the area intersects with Baltimore and its immediate suburbs. Some cities, such as Boston, Cincinnati, Denver, San Diego, St. Louis, and Phoenix, did not seem to have any discernible pattern. And in other areas—Detroit, Cleveland, Dallas, Atlanta, and Reno, Nev.—the opposite phenomenon seems to be in play, with real estate values actually improving away from the city.

Much Faster Fall for New Housing

In Detroit, this might have something to do with years of economic weakness in the city. In Atlanta, the oversupply of new condos that sprouted before home prices tumbled might be to blame. "There's a pretty clear pattern of neighborhoods close to the urban core holding their values better than neighborhoods in suburban and exurban communities," said Stan Humphries, Zillow's vice-president of data and analytics. "Where there is a lot of supply and demand changes, there's a quicker effect on housing prices."

In other words, the building boom happened in suburbs, especially suburbs farther away from the cities, and that's where an oversupply of housing and lackluster demand are toppling home prices. Space for new construction was more limited in city centers and nearby suburbs.

And the subprime crisis was most pronounced in places where poorer people could afford to buy—largely in the distant suburbs where land was cheap and builders were active. In the past decade, empty-nesters and young professionals have returned to cities and have shown a willingness to pay a premium to be close to their offices and to stores, coffee shops, bars, music venues, and other entertainment. Downtowns have come to life while suburban malls are struggling.

"Prices are dropping where new construction tended to be active, and this tends to be outside the urban core," said Kenneth Rosen, chairman of the Fisher Center for Real Estate & Urban Economies at the University of California at Berkeley. "New housing dropped twice as fast as existing homes."

Suburbs Attracting Inner-City Woes

The March issue of Atlantic Monthly painted a dark picture for suburbs in coming decades. With rising gas prices and traffic congestion, Christopher Leinberger, a visiting fellow at the Brookings Institution who also runs the University of Michigan's graduate real estate program, predicted that fringe suburbs would become the inner cities of the future as gas prices and traffic make them increasingly unappealing. Those suburbs, which are far from job centers and public transportation, will fall into decline and "will become magnets for poverty, crime, and social dysfunction," he wrote.

"About 25 years ago, Escape from New York perfectly captured the zeitgeist of its moment," the piece concludes. "Two or three decades from now, the next Kurt Russell may find his breakout role in Escape from the Suburban Fringe."

Leinberger says not all suburbs will suffer this fate. (Most cities have a wealthy band of suburbs, such as the Main Line outside Philadelphia, that are holding value.) Many of Washington, D.C.'s inner suburbs such as Bethesda, Md., and Arlington, Va., could be role models for other suburbs, he said. They are dense, walkable communities focused around public transportation. Leinberger, who is also a developer, said suburbs should start building mixed-use projects around suburban train stations. "Walkable places are now the most expensive on a price-per-square-foot basis because there is a tremendous pent-up demand for them (20 years ago it was the cheapest housing in the region)," Leinberger said. "We've got a structural change taking place in this country. Gas prices are just accelerating the trend."

Immigrants Heading to the Suburbs

Leinberger's hypothosis is supported by academics and planners who see sprawl as bad for the environment and inefficient because of the costs of roads, sewers and other infrastructure costs.

Joel Kotkin, a presidential fellow at Chapman University in Orange County, Calif., disagrees. He points out that many suburbs have become strong job centers and are increasingly self-sufficient, offering residents more than just the basic shopping and entertainment options, especially as immigrants opt for a suburban lifestyle. The best

Chinese food in Los Angeles County is in the San Gabriel Valley and the best Indian food in the Houston area is in the Sugarland suburb, he said. "What you're seeing is that suburbs are becoming places unto themselves," Kotkin said.

Home values have been hit hard in Corona, Calif., about 50 miles outside of Los Angeles. But Cameron Novak, a broker with the Homefinding Center in Corona, said many of the suburb's residents work in neighboring Orange County, not Los Angeles. He suggested another study for BusinessWeek, of suburban job centers. He said we might recognize the pattern: weakness spreading outward.