

# Fuel prices force US rethink

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Ever since the rise of the automobile in the 1950s, the American Dream has featured a home in the suburbs and two cars in the garage.

Now the iconic white picket fence comes with a hefty price tag in the form of the cost of the gasoline needed to drive to work and to the supermarket, and the suburban idyll is under review.

In different parts of the United States, there are signs of change. While home prices in the suburbs have crashed, apartments in city centres are in demand. Home builders across the country are frantically trying to unload land they had intended for new subdivisions. And planners are rethinking how they can meet demand for housing.

One such place is Stapleton, on the site of what used to be Denver's airport. Its developer, real estate company Forest City, puts homes within walking distance of schools and stores while linking them to the workplace by public transportation.

Resident Evelyn Baker says Stapleton appeals to a "cheapskate" side of her nature that favours towing her offspring about in a trailer attached to her bike over paying for gas for her car.

"We're a family of four with two young kids and the obligatory yellow Lab, but we've managed to get by with one car," said Baker, who has lived here since April 2006.

And, with gas prices above \$4 a gallon, Baker said her move to Stapleton feels like a smart decision both because of lower day-to-day costs and the durability of her home's value.

"I do feel like my house is retaining its value, and I'm really excited about that," Baker said.

In the suburb of Maricopa, about an hour's drive outside Phoenix, residents have a very different feeling.

Built on former corn and cotton fields, the suburb has grown to number 38,000 people from about 1,500 in 2002, accommodating people who were willing to accept longer commutes in order to get homes at cheaper prices.

These days, Maricopa has been inundated by foreclosures and short sales - where lenders agree to take a repayment that is lower than the outstanding loan to avoid dealing with a foreclosure, and high gas prices are part of the reason.

"Gas prices put a strain on people. The bulk of people that live here have to work and do have to commute, so obviously it adds to their expenses," said Bill Wasowicz, a realtor with Fortuna Land & Realty in Maricopa.

The town even launched its own bus service, taking residents to work in central Phoenix and home again for \$6, but still homes here are hemorrhaging value.

Tracy McKelvey and his wife Jan lived in a similar suburb and used to commute two hours each day to their jobs in Phoenix. But, a few years ago, they traded in their three-bedroom, two-garage house in the Phoenix valley for a downtown loft.

Both McKelveys now travel to work by scooter and enjoy restaurants, cafes, sports arenas and shops within walking distance of home, taking advantage of the \$2.3 billion that the country's fifth-largest city is spending to build housing, a university campus and a mass transit rail system.

"We save money on gas. It's a good feeling. I haven't sat in a traffic jam for years," Tracy McKelvey said.

As people like the McKelveys take action to shorten their commutes, home builders are fleeing the suburbs, too, sometimes selling land at a loss, even the priciest parcels snapped up at the height of the building boom.

Meritage Homes Corp , the 12th-largest US home builder, has pulled out of many places where people are not buying, said spokesman Brent Anderson.

Where developers can't escape, they're offering unprecedented incentives to move inventory. In May, Michael Crews Development offered to give away a row home valued at \$400,000 with the purchase of a \$1.6 million luxury home in the upscale city of Escondido, north of San Diego.

A recent survey of 903 brokers affiliated with national real estate chain Coldwell Banker suggests that pressure is building. Almost 80 percent of them said higher fuel costs are increasing their clients' desire to live in cities.

"People rejected cities for 30 years or so but now they're looking again," said John Norquist of Congress for the New Urbanism, a Chicago-based group that promotes walkable development.

Young families, once considered synonymous with suburbs, are increasingly opting to raise urban babies in places like New York.

"Parents recognise that there are good reasons to live in cities," Norquist said. "Walkability, convenience, not having to drive kids everywhere. And gas prices at \$4.50 a gallon will accelerate that."

Even smaller cities are getting in on the act. Omaha, Nebraska, and Kansas City, Missouri, are among those revitalising their downtowns.

Mick Cornett, the mayor of Oklahoma City, Oklahoma, said that once the only people who lived in the city's downtown were those who were in jail. "It's a different story today," he said.

And retirees who put their empty nests in the suburbs up for sale are increasingly looking at moving into cities. That shift may get a further boost when the big Baby Boom generation starts turning 65 in 2011.

Experts like Christopher Leinberger, a visiting fellow at the Brookings Institution and head of the graduate program in real estate development at the University of Michigan, note that people are now willing to pay a premium to live in the city, a reversal from the last 50 years.

"These are not the cyclical changes that recessions cause every few years. These are game-changing structural changes," Leinberger said. "The market is demanding walkable urban product."

The resale value of attached housing, such as condominiums and co-operatives, is appreciating faster than single-family homes, said Arthur Nelson, a director of the Metropolitan Institute at Virginia Tech. In regions where housing is losing value, attached homes are losing value at a lower rate than single-family ones.

"Condos are a much more resilient investment than single-family on the whole, nationwide," he said.

Prices are up 5% in Washington's Georgetown neighbourhood, an area of upscale townhomes, and down 30% on the city's fringe, Leinberger noted.

For those who can't afford or don't want to live downtown, but can't afford or don't want to commute to the suburbs, hybrids like Stapleton are literally a middle ground.

Government and home builders are supporting such communities by expanding rail networks and putting housing within walking distance of train stations, said Sam Zimmerman-Bergman of Reconnecting America, a mass transit advocacy organisation.

However, Forest City's Ronald Ratner, head of residential development, cautions against overstating the trend, which he says still needs nurturing.

Federal transit spending isn't sufficient to keep pace with the increase in local demand for transit, said Zimmerman-Bergman, although that could change with the reauthorization of the federal transportation bill next year.

On the local level, municipalities whose budgets have taken a hit due to falling property values are struggling to fund transportation needs.

Another obstacle is a bulky permits and approvals process, which becomes increasingly cumbersome the closer a developer gets to a city, and the difficulty this presents for developers.

"In homebuilding, one has to work years ahead in terms of approvals," said Kira McCarron, vice-president of marketing for luxury builder Toll Brothers Inc. "So it isn't possible for any builder to react on a dime in terms of a trend that presents itself today."

But some cities, like Denver, that have either streamlined their review process or provided the necessary transportation infrastructure have found productive partnerships with builders eager to get into hybrid development.

San Mateo, California is another example. A few years ago, that city moved to wean residents off cars and onto trains by allowing housing near its transit hub, which prompted developer Edward Lipkin of EBL&S Development to turn an old department store into what he calls a village.

Station Park Green, slated for completion in 2009, will have 600 residential units in a mix of rental, condos and townhouses; retail including a coffee shop and a small grocer and rail access to San Francisco and San Jose.

"The idea is to eliminate as many of the car-based necessity trips as possible," Lipkin said.

For years, Lipkin was a developer of shopping malls in the classic sprawling suburban style. Then his experience in San Mateo inspired him to reorient his entire business to development along the lines of Station Park Green.

"That was the opportunity to participate in what we felt was an emerging trend," said Lipkin. "We just feel it's the future of development in the United States."

Source: Reuters