

Increased Energy Demand Impacts the Suburbs



In areas with fewer public transportation options, gas prices are significantly impacting the building industry.

By Patrick S. Duffy

For several years now, the 'peak oil' theory has posited that global oil production will soon peak and then begin a slow but steady decline, thereby forcing economies dependent on cheap energy to quickly adapt or face cataclysmic ruin. Although we've not yet hit that oil supply plateau, the global rise in energy demand is currently having similar impacts, especially on far-flung suburbs with few public transit options and which act as bedroom communities for job centers elsewhere.

According to a study by the group CEO for Cities in May 2008 entitled "Driven to the Brink," the final casual factor popping the housing bubble wasn't the sudden lack of creative loans or buyer demand, but a sharp spike in gas prices beginning in 2004. Arguing that gas prices were lower in inflation-adjusted terms than they'd been in 1990, the constant rise in oil costs has impacted both household budgets and impacted housing prices on the suburban fringe. Consequently, prices for homes located in and around urban cores – and which offer close proximity to various transit options, jobs, shopping, recreation and entertainment amenities – have performed

better during the recent housing slump than those areas requiring a commute, and in some cases have even gained at the expense of the exurbs.

Given that urban sprawl throughout the U.S. has arguably been the direct result of the perception of low energy prices far into the future, changing that calculus will likely exert a significant impact on both the economic decisions and the psychology of the home buying public.

Says Brad Kemp, Director of Regional Research for Beacon Economics in Los Angeles, "It's 100 percent reasonable that people consider gas prices when choosing where to live." To prove his point, Kemp and his team compared population growth in the Southwest portion of California's Riverside County against fuel oil prices since 1993. Whereas low fuel prices had helped to enable the region's growth throughout the 1990s, whenever there was a pricing spike – population growth soon slowed. Following a sharp population rise in 2006 – perhaps coinciding with a last-ditch effort by homebuyers to grab low teaser rate loans while they could – growth fell sharply in both 2007 and into 2008 as fuel prices eclipsed \$3 and then \$4 per gallon.

Still, there could be many benefits from a planning process which focuses more on redeveloping existing areas and encouraging politicians to sell the benefits of greater density. For an industry rapidly embracing

green building and sustainability, a trend away from commuting long distances could reduce overall energy use, stimulate local economies, help reduce the chronic trade deficit and, since transportation-oriented uses are reportedly responsible for more than one-third of greenhouse gases, reduce the emissions which contribute to global warming.

Moreover, given the lobbying clout of homebuilders with Congress as well as at the local level, they could also play a pivotal role in ongoing policy changes resulting from higher energy prices. With the rise of emerging economies around the world, it's unlikely fuel prices will ever return to the commodity prices of the 1990s, and governments need to plan accordingly. Part of that planning will require addressing the need for higher density in appropriate areas and the political backbone to resist the short-sighted and often destructive actions by neighborhood NIMBYs. Local governments will also have to band together more proactively to jumpstart mass transit options in urban cores and make it easier for growing families to live in mixed-use, convenient areas.

Patrick Duffy is a Principal with  MetroIntelligence Real Estate Advisors (www.metrointel.com), consults to Beacon Economics and authors *The Housing Chronicles Blog* (www.housingchronicles.com). He can be reached at pduffy@metrointel.com or at 888-82-DEVELOP.

Fast Facts



- Gas prices have nearly quadrupled since 2002.

- 28% of people polled in 2005 looked for a shorter commute in response to higher gas prices.

- Per-capita vehicle travel has fallen over the last 3 years, reversing a long-term trend.

- People living in the densest areas travel only 1/3 as those in distant suburbs.