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Compact Real Estate: The Stimulus We Need?

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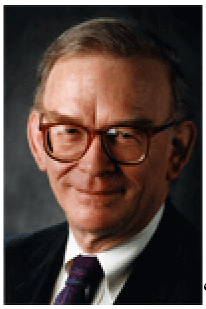“Steer clear of tract mansions, ‘the Hummers of real estate.’ They never made much sense, given big heating bills, high property taxes, and large maintenance costs. Now they’re as obsolete as the cars.”

That’s the warning of analyst Jonathan Miller in the 2011 edition of the authoritative *“Emerging Trends in Real Estate,”* copublished by PricewaterhouseCoopers and the Urban Land Institute.

Miller’s caution underscores what many analysts are now saying: Housing development at the urban fringe, where foreclosures have been the most ferocious, won’t recommence any time soon. The great American “drive ’til you qualify” phenomenon has come to a screeching halt.

There may be exceptions in especially hot growth regions (whenever those reappear). Ritzy (solidly high-income) suburbs will keep their niche for years to come.

But the catastrophic housing slump triggered by subprime mortgages, false securitization, credit default swaps and now massive foreclosures has destroyed confidence, raised fears of more underwater mortgages, and placed a permanent crimp on the suburban growth machine.

Plus, the slump may be reinforced for years to come by a massive age mismatch among housing sellers and buyers, reports University of Virginia demographer William J. Lucy.

Why? Many suburban homeowners, the cutting edge of the massive baby boom generation aged 55 and up, are reassessing their housing needs. With the kids departed, they wonder about keeping (and heating) their big rec-room, multi-bedroom houses. They have lawns to tend. They’re considering smaller digs. Maybe even a move to town for its more walkable amenities (stores, parks, restaurants, libraries, medical facilities).

The number of people in this 55-and-up group increased nationwide by 8 million from 2000 to 2009. But there’s a problem — Who are they going to sell to? Normally it would be to younger people in the 30-to-45 age group, often interested in yards, rec-rooms and bedrooms for kids. But there's the rub: There aren't nearly as many in that younger group; in fact the number of potential homeowners aged 30 to 45 years of age actually went down by 3.6 million from 2000 to 2009. And they're not having as many kids as their parents, anyway.

"There are simply too many sellers and too few buyers," says Lucy.

Plus, there's been a dramatic taste shift. Today's "millennials," born between 1977 and 1994, are leaving the nest with radically different tastes from their parents. A high proportion, write Patrick Doherty and Christopher Leinberger in the latest Washington Monthly, "have a taste for vibrant, compact, and walkable communities full of economic, social and recreational opportunities." Some three-quarters, in polls, say they plan to live in America's urban cores. Many fewer say they'll be looking for drivable suburban homes.

Indeed, consumer taste for more convenient locations — in cities or older, more compact suburban neighborhoods — was rising long before the housing market implosion. Significant revival of pre-1940 neighborhoods — usually offering with some employment, shops, entertainment, restaurants and public transit — picked up as a strong trend in the 1990s.

"By 2000," Lucy notes, "white flight was a distant memory in many parts of cities." Even in today's real estate bust, he adds, too few condominiums are for sale in attractive parts of cities and the inner suburbs where demand has increased.

There's a frequent obstacle: neighbors' opposition to infill development and the extra density it adds. But neighborhood doubts can often be satisfied by collaborative planning and prospects of quality redevelopment near transit stops, as well as attractive makeovers of obsolete shopping centers and low-grade strip commercial corridors. Plus, downtowns, universities and medical centers are new magnets for quality redevelopment.

We're ready for a new housing decade, Lucy suggests — a "Fix-Up, Remodel, Expand and Condominium era."

Doherty and Leinberger pick up on that theme with a vengeance, arguing that the real estate sector, which triggered the recession, "must get back into the game." We'll be "condemned to high unemployment and sluggish growth," they assert, if the 35 percent of the economy that real estate represents "is not engaged."

And where's the opportunity they suggest? You guessed it: to satisfy what both the millennials, and many boomers ready to downsize seem to want — "small one-to-three bedroom homes in walkable, transit-oriented, economically dynamic, and job-rich neighborhoods."

Meeting that market demand, whether by new construction or expanding/renovating old homes and apartments could, it's argued, become a prime "economic engine to put our people back to work" without more government debt, without enduring the conservatives' austerity or paying for more of the liberals' fiscal stimulus.

And there would be big side benefits: more walking to reduce obesity, reduced carbon emissions to combat climate change, less reliance on oil from countries with terrorist ties, and a less overextended U.S. military.

It all won't happen automatically. Hardly. We need some revolutions — to fund transit over road expansions, to revoke zoning codes that stop compact development. But in tight, dangerous times, what else? If not now, when ever?

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