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In the Exurbs, the American Dream Is Up for Rent

CONOR DOUGHERTY | Monday, March 30, 2009

PLANO, Ill. — Kim and Robert Discianno had the American dream. Now, they rent a few streets away.

The Disciannos moved from Aurora, Ill., to their home here in Plano three years ago, lured to the outermost fringes of suburbs, known as the exurbs, by the promise of owning their first home. Today, their credit is shot and they no longer own, but Ms. Discianno still has a four-hour commute.

The Disciannos are among many exurban families losing their homes and their grip on the dream of home ownership. The exurbs were among the fastest growing counties during the boom — entire civilizations built around the idea of owning real estate. With home prices falling and unemployment rising, more people are renting — just as they had before the boom — and turning the community into a rental economy.

Renting is one of the few ways for people to stay in the area and keep landlords afloat. It can be good for the overall economy because it promotes mobility. When the economy turns downward, renters are more willing than owners to move to a region where jobs are more plentiful.

But that same mobility can make for less stable communities and lower property values. Some observers believe the growth of rental property is the first in a series of steps that will transform today's exurbs into tomorrow's low-income housing. These communities have a low tax base made up mostly of property and sales taxes, both of which are in decline. Lawrence Summers, economic adviser to President Barack Obama, has often explained it this way: "No one in the history of the world ever washed a rented car."

What is happening on the urban fringe is similar to the urban decay that plagued cities after World War II, says Christopher B. Leinberger, a real-estate developer and visiting fellow at the Brookings Institution. "Single-family homes and townhouses in cities were broken into rental units. Now, we're seeing that phenomenon move out to the fringe."

More than three million homes have either been lost to foreclosure or a foreclosure-related sale between 2006 and 2008, according to Moody's Economy.com. And the decline in home prices and concentration of foreclosures is generally worse in outer-lying communities than in the central city or closer-in suburbs.

The tug of home ownership in the exurbs changed how much of America lives and works. These outer-lying communities further popularized the "McMansion" and turned two-hour commutes into four. People didn't necessarily prefer to move so far out, but they did so for the promise of a home, a yard and tax-deductible interest payments.

Many lower-salaried workers were able to afford their first home, while higher-paid professionals could trade up to a larger house with a big yard and a game room. About 17 million people, 5.6% of the U.S. population, lived in the exurbs in 2007, according to the Brookings Institution, compared with 14 million people in 2000.

Kendall County, about 50 miles west of Chicago, was one of the fastest growing exurbs during the boom years. The county's population about doubled during the housing boom, to some 100,000 residents in 2008 from roughly 55,000 in 2000. As people moved in, starter homes and shopping centers rose among worn barns and silos.

The residents who came over the past few years have average incomes about 20% lower than established residents, according to an analysis of Internal Revenue Service data by Kenneth Johnson, senior demographer at the University of New Hampshire's Carsey Institute. About a third of Kendall County's labor force are in management and professional jobs, compared with 41% in nearby DuPage, an established suburban county where homes cost more.

Now, as the housing bust and recession has turned the exurbs from engines of growth to economic laggards, many of these families have the worst of both worlds. They are still on the fringes but have no equity. In many cases the amenities they hoped would follow — new shopping centers, movie theatres — have ceased construction or opened with only a few stores. Government projects like new schools and parks have also been delayed as budgets get cut and population growth has slowed.

In the Lakewood Springs development here where the Disciannos live, "For Sale" and "For Rent" signs are everywhere. A few have driveways littered with abandoned couches and stereos, and in some cases homeowners are living next to tenants paying half the cost of a mortgage.

Couples like the Disciannos mirror the economic arc of the exurbs. With a no-money-down mortgage, the couple bought a \$235,000 three-bedroom house in Plano, doubling Ms. Discianno's round-trip commute to more than four hours.

Ms. Discianno, an IT project manager for a Chicago law firm, says at first the trade-offs were worth it. At the family's apartment complex back in Aurora, Ms. Discianno says she often felt guilty about raising her two children in cramped quarters. On a few occasions, the neighbors complained when her daughter played hopscotch on a common walkway, and Ms. Discianno had to limit sleepovers to one friend for lack of space.

Their house in Plano had a back yard and nearby jungle gyms. "We could actually own something and afford it," says Ms. Discianno, who was able to pay the early payments of \$1,500 a month. It was great for the kids, she says. "Friends can come see them, instead of them always going somewhere else."

As land values rose, the couple's combined mortgage and property tax payment soared, to \$2,900 from \$1,500. Rather than struggle with the bills, the family abandoned their home to the bank, moved out, and found a new home to rent. They didn't have to look far: The Disciannos found a smaller home in the same development for \$1,500. That home was owned by investors

who had hoped to sell it — but settled on renting it instead. The new home is about the same size as the apartment they used to rent, and sleepovers are again limited to one friend per night.

Many owners were initially concerned about renters. The homeowners' association at the Lakewood Springs development has restrictions on how rental properties can be advertised. But feelings have shifted with foreclosures turning occupied homes into vacancies that are worse for the local economy.

"Overall, a community of owners versus renters is obviously going to be better," said Tim Jones, a satellite television technician, and a friend of the Disciannos. But after four years of struggling to pay his own mortgage, Mr. Jones says he has no equity to show for it. He may end up walking away from his home, he says, which may end up turning him into a renter as well.

While she still owned a home, Ms. Discianno opposed renters and voiced concerns about them at a homeowners' association meeting. "I was very against it too," she says. "It doesn't do much for property values.