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Housing Bubble Popped by Spike in Fuel Costs, New Analysis Shows
Outlying Suburbs Hardest Hit with Devalued Real Estate

CHICAGO – While predatory lending and sub-prime mortgages have taken the blame for the dramatic decrease in housing prices and the glut of foreclosures nationwide, a new analysis shows that rising fuel costs played a significant role in the collapse of America’s housing bubble.

That’s according to a new report released today by CEOs for Cities titled “Driven to the Brink: How the Gas Price Spike Popped the Housing Bubble and Devalued the Suburbs,” by economist Joseph Cortright.

“The popular narrative on the collapse of housing prices has only blamed exotic lending practices,” said Cortright, “but the much more important story is about how higher gas prices have re-drawn the map of urban real estate values. Vibrant central cities just got a whole lot more valuable.”

The analysis found that while there is overall weakness in housing prices, price declines are generally far more severe in far-flung suburbs and metropolitan areas with weak central cities. The reason for this shift is rooted in the dramatic increase in gas prices over the past five years. Cities and neighborhoods that require lengthy commutes and provide few transportation alternatives to the private vehicle are falling in value more precipitously than more central, compact and accessible places, the study shows.

In fact, growth in housing prices was fueled by low and stable gas prices from 1990 through 2004. The rise in gas prices from less than \$1.10 in early 2002 to more than \$3 today has dealt a major blow to consumer purchasing power and weighs most heavily on those metropolitan areas and those suburbs where people have to drive the farthest. The decline in housing markets is strongly correlated with auto dependence.

As measured by the change in housing prices over the last year, distant suburbs have seen the largest declines, while values in close-in neighborhoods have held up better, and in some cases continued to increase.

The study looked at housing values in five cities in both close-in and distant neighborhoods and found that in each case, housing prices fared worse in the more distant neighborhood. For example, the average house in the 60618 zip code in Chicago (5.6 miles from the downtown loop) appreciated from \$374,000 to \$410,000 (an increase of \$36,000) between the fourth quarter of 2006 and the fourth quarter of 2007. A house in suburban Buffalo Grove (60089) that sold for the same price in 2006, declined by \$30,000 over the course of the year.

The run-up in gasoline prices has re-written the calculus of suburban housing economics in two key ways. First, there has been an income effect: suburban households spend more of their income on transportation and gas and have therefore taken the biggest hit to their budgets. As a

result, they have less income to spend on housing. Second, there has been a price effect: because living in distant suburbs requires more driving, potential buyers are now willing to bid less for houses at the suburban fringe.

“These changes will not be short-lived, and they can’t be addressed with short-term fixes,” said Carol Coletta, President and CEO of CEOs for Cities, a national network of urban leaders, which commissioned the study. “Public policy must recognize the new realities by changing land use planning and investment to encourage re-use of existing urban land and less driving. In this new world of high gas prices, strengthening the urban core is not only a matter of civic pride. It makes financial sense for America’s families.

The report concludes with five policy implications:

- The relative decline in prices in sprawling suburbs is likely to persist because of the continued high price of gas, and governments should plan accordingly.
- The market for higher density and redevelopment in close-in neighborhoods is likely to grow stronger, and local land use plans should accommodate this shift.
- Government can help families save money by making it easy and convenient to live in mixed-use, close-in neighborhoods served by transit.
- Reducing vehicle miles traveled not only saves families money, households that drive less have more to spend on other things, stimulating the local economy. Additionally, reducing oil consumption not only cuts greenhouse gas emissions but lowers the trade deficit.
- Many distant exurban developments may no longer be economical, and propping up building and homeownership in these areas encourages unsustainable settlement that makes families even more vulnerable to future gas price increases.

About CEOs for Cities

CEOs for Cities is a cross-sector network of urban leaders from the civic, corporate, academic, and philanthropic sectors in partnerships around urban strategy. At CEOs for Cities, we believe that cities are the solution to many of today’s challenges. If you are concerned about climate change, access to job and education opportunities, poverty, obesity, productivity, our innovation capability, or our ability to learn to live with people of different ethnic or religious backgrounds, you have to be concerned about cities. The city is the only place these problems can be solved.

About Joseph Cortright

Joe Cortright is an economist with Impresa, a Portland consulting firm specializing in regional economic analysis, innovation and industry clusters. Joe is also a non-resident Senior Fellow at the Brookings Institution and is the chief economic analyst for the Oregon Business Plan, a multi-year, private sector-led effort to develop the state economy and for CEOs for Cities, a national organization of urban leaders. He has served as an advisor to state and local governments, private businesses, foundations and advocacy groups in more than a dozen states, Canada and Europe.

For a digital copy of *Driven to the Brink*, email sredick@ceosforcities.org.