

# After the Recession: Florida, Nevada, Arizona, and the Next 5,000 Days

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TO DATE, WHAT HAS BEEN WRITTEN ABOUT THE REAL ESTATE industry and its association with the current recession has centered primarily on the flow of capital and its impact on yields, lending practices and the valuation of real estate.<sup>1,2,3,4,5</sup> Accordingly, on Aug. 3, 2010, Jay Marling, editor in chief of *The Counselor*, solicited opinions of The Counselors of Real Estate (CRE) membership via email regarding current United States fiscal policy, unemployment, the current availability of real estate financing, pricing, and cap rates.

With some obvious exceptions, it is notable how little has been written about the actual *use* of real estate. The industry's scrutiny of financial metrics has taken primacy over many fundamental social and demographic influences underlying the basic need for or the utility of real estate. Because these social and demographic forces have economic consequences, they ultimately affect the need for capital. If these are *structural* in form, they presage our entire decision making and planning processes, not just locally but at a macroeconomic level, much as the change in the 1986 tax code forced passive investors to evaluate all their interests in real estate as an asset class.

With the recession now deemed to have ended in 2009, it will have exceeded, by many months, those that occurred in the 1970s and 1980s, with extraordinary disruptions to the housing market. While the needs of the commercial real estate industry are emerging, residential property is of particular interest because it so badly lags other economic indicators.

Nevada, Arizona and, especially, Florida offer a laboratory for examining some of the social, economic and political conditions that may have relevance to other areas of the

country. Like these states, many areas large and small have experienced extraordinary growth and are left to weigh the longer-term implications of a housing market that seems grossly overbuilt and reluctant to respond.

To illustrate the dimensions of the problem, Florida remains one of the country's fastest-growing states and has been on a trajectory to overtake New York, the nation's third-ranked state, no later than 2015. Suddenly that timetable, and its need for housing to accommodate that growth, is askew. In 2008, for the first time since 1940, the number of persons *exiting* Florida was greater than the number of persons *entering* Florida, resulting in decreased population estimates for 2009.<sup>6,7,8</sup> For this and other reasons, the Bureau of Economic and Business Research (BEBR) at the University of Florida has modified its long-term population projections which now show slowing rates of growth through 2035. In fact, future population counts in 39 of the state's 67 counties could fall below those of the 2007 projections.<sup>9</sup> The U.S. Census Bureau (USCB) estimates an inconsequential 0.61 percent increase, rather than a decline, for the



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2008–2009 time period. Thematically, even if these differences underscore the variability in population, the numbers speak to *major* change.

Should Florida's sudden population contraction be evidence of a structural shift, the industry's expectations about real estate needs over the long term may require adjustment in analysis or scale. Much less threatening, the contraction may represent nothing more than an unpleasant but forgiving and manageable temporary disruption. Because so much of the value implicit in real estate is tied to job or population growth occurring across broad regions, it is worth (re)examining basic socioeconomic data suggestive of immediate and future impacts, if any.

Without doubt, the supply of vacant residential product is at a historic high, juiced by builders looking for record profits, buyers looking for quick returns, and financial markets ostensibly looking at very little. The consequences of this housing overhang, however, invite varied perspectives. The extreme view is that the economy has changed and, along with it, the way we deploy and value shelter. Adjustments to policy may fall well behind consumer response.

### CURRENT STATE OF THE ECONOMY

There seems to be little question that much of the slowing migration into once rapidly growing Florida, Nevada and Arizona stems largely from economic constraints that together limit individual mobility.<sup>10</sup> Almost overnight, these states show the scars of development dependent upon growth and movement.

Economic conditions in the past made these population centers very attractive in the context of their neighbors. Over a period of thirty years, migrant populations carried housing equity to these areas. Equity dollars seeded resettlement, often without concern for a specific job opportunity. As the data continue to demonstrate, it is difficult to release equity from an existing homestead in another state where home prices have also flattened or declined. Although conditions are better in Arizona, the jobless rate in Nevada and Florida materially exceeds the national level of unemployment for the first time in decades. To establish context, although unemployment is also high in Michigan, Florida shed nearly twice the number of jobs lost in that state.<sup>11</sup>

Because these same three states lead in the rate of foreclosures, prospective newcomers *with* available

capital have a motivation to find locations more favorable to their residential purchases as either residents or investors. A recent Case-Shiller Index provides no expectation that low pricing offers immediate rewards in several markets covered by the report, pessimistically forecasting value recovery as late as 2020 in Jacksonville, 2039 in Orlando and 2020 in Tucson.<sup>12</sup> In the case of Las Vegas, values have fallen 56.1 percent from their peak; Miami 47.3 percent; and Phoenix 50.7 percent. A well-timed purchase in Phoenix may bring rewards there since year-to-year (2009–2010) values have increased about 5.4 percent. In both Miami and Las Vegas, values have only fallen further.<sup>13</sup>

Much of the unemployment experienced in these high growth settings is centered on the construction trades, certain segments of the tourism or gambling industries and professions tied to the planning, design or implementation of development. The construction jobs, in particular, are unlikely to be replaced for many years but the troubles are deeper. Even senior and established employees have proven vulnerable. In a less severe downturn, substitute employment may have been available locally for the most capable of these workers. These three troubled states, however, have not shown themselves as a safe haven for the legions of unemployed workers that might have worked to build their futures there. As suggested by the population counts in Florida, a number have instead *returned* to their home states where they have family and social infrastructure, even if they have no jobs.

Despite efforts to diversify, the options for skilled or technical labor in these former boom states remain limited, discouraging talented newcomers and forcing out those that might otherwise stay. Nothing illustrates this prospective economic dislocation better than NASA's termination of the shuttle program in Florida. The end of shuttle operations may release thousands of highly trained technicians and scientists with few industries nearby to absorb them.<sup>14,15</sup>

For the foreseeable future, management will emphasize increased worker productivity, not materially increased employment. Such decisions will only slow recovery in the south where, according to the Bureau of Labor Statistics (BLS), news is grim. The BLS reports that Georgia, Florida and Arizona were among the five biggest losers of jobs from 2007–2009.<sup>16</sup> Altogether, they shed almost 1,300,000 jobs during these years.<sup>17</sup>

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To regain anywhere near the levels of employment achieved *prerecession* will necessitate that phenomenal numbers of jobs be created. The scale is difficult to grasp. In Florida alone, some 700,000–800,000 jobs would have to be created to reach full employment. Assuming no change in the current labor force or population, this number is more than twice the number of jobs created in 2005. In retrospect, the number of jobs realized in 2005 seems an anomaly—*exceeding* the previous year by more than 80,000.<sup>18</sup> Even with the recession ending, it is sure to be painful for those needing a job.

Counter arguments offer the prospect that technical talent, such as that separated from NASA, will be redirected into self-employment and research opportunities. This will seed future economic expansion. While job growth in the U.S. will likely remain concentrated among small employers, they have also shed a disproportionate number of workers according to some reports.<sup>19</sup> Any beneficial effects coming from new businesses will require a period of time to extend across the regional economy in a manner that job and population growth are sustained. The credit outlook dims this prospect. Because banks, the primary source of loans to small businesses, and venture funds, an important source of entrepreneurial support, are themselves in retrenchment, the desirable impacts stemming from these potential new operations will take much longer.

### EMPLOYMENT DIVERSITY

During prior recessions, economic conditions in Florida and Nevada seemed brighter than they were elsewhere. Jobs requiring marginal education were relatively quick to form and easy to fill. Perceptions about opportunity lured economic migrants so local unemployment rates were low compared to those elsewhere.

Interestingly, Oregon—the Portland area in particular, which is often held up as a model of growth and financial responsibility—is experiencing its own economic meltdown despite its strong employment diversification. In terms of reengineering its economy, Oregon offers employment and wealth opportunities that are the envy of the boom states, but even Oregon has its problems: The unemployment rate (February, preliminary) is 11.4 percent, comparable to Florida's. Although explanations for Oregon's job losses remain conjectural, the state's many economic dimensions appear to offer varied avenues to recovery. Even California, struggling with its

budgetary and political problems, has the advantages of a mature economy.

States such as Oregon and California offer the prospect that some sectors will show improving financial condition, though others are slower to respond. These states provide an economic base sufficiently diverse and positioned to diversify further still. Despite their troubles they maintain an attractive advantage. By contrast, the business models of Florida and Nevada, drawing largely on a narrow class of jobs, do not offer comparable promise for the future.

### AGING OF THE POPULATION

The population is already rethinking the age of retirement, which may be a forced decision should benefits available through Social Security be altered or postponed to a more advanced age. Commensurate with retirement, substantial segments of the population have traditionally elected to choose states other than their own for their senior years.

As the decision to retire is delayed, so are the large movements that dominated the historical rates of growth in Florida, Nevada and Arizona.<sup>20</sup> Among its southern neighbors, Florida had proved itself especially attractive, but this preference is showing signs of weakness. Currently, Tennessee, Georgia and North Carolina are showing increases because they are aggressively recruiting retired populations as a matter of policy.<sup>21</sup> In the west, Colorado, Idaho and Utah also have experienced very high rates of retirement age migration.

The decision to postpone retirement and move to another location has many influencing factors. It is, at least in part, dependent upon one's ability to convert the homestead into a source of capital for a new residence, often anticipated to be debt-free. Renters are spared the stress of selling a home prior to moving. Homeowners necessarily must partner with other people wishing to acquire their existing homestead.

Generally, the pairing of retirees and buyers has usually been necessitated by demands stemming from upward mobility and increasing family size. In the past, this arrangement worked well, as the aging World War II population (in control of larger homes and seeking release from their mortgage obligations) transacted with the baby boomers (in need of residential units more suited to their family size and incomes). Since this World War II group of homeowners was significantly smaller

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than the baby boom cohort, the former found it easy to sell and to move, pushing housing prices upward as demand and supply reached equilibrium.<sup>22</sup>

Those older than 45 comprise the largest segment of the population. In the category of homeowners, this group of persons (64.3 percent), based on 2000 data from the USCB, literally dwarfs the population falling into the 25–44 age group which in the past has been the most active home buying segment.<sup>23</sup> Detailed age segmentation may offer other conclusions but the gross comparisons seem to identify many more potential sellers than buyers.

Not only are the physical numbers of the active buying population seemingly lower, their housing needs are substantively different based on the size of household, which is about half the size of the family started by their parents. While recent trends toward larger single family homes suggest otherwise, the only reasonable short-term justification for larger homes would be continued price reductions to clear inventory. More rationally, over the longer term, a younger, smaller and potentially less affluent population seems likely to avoid a real estate transaction resulting in a larger debt burden than its actual needs require.

Myers and Vidaurri have written thoughtfully on future housing needs based on age segmentation in the population.<sup>24</sup> They argue plausibly that age cohorts, as described here, are much more fluid, that conventional comparisons of age groups may not be a suitable basis for projecting future housing requirements. They reason that cohorts are indicative of a static condition. The problem with this kind of analysis, as they observe, is much more complicated.

The issue however is *not* about measuring housing demand broadly across the population. Rather the challenge is to match a *specific* seller with a *specific* buyer, releasing equity on terms that provide optimal benefit to both, an outcome suspect whatever method is used to analyze the problem. The complexities mount when the cultural differences in age groups, characterized by the likes of urban theorist Richard Florida, are presumed to place less emphasis on the homestead.<sup>25</sup> These differences may be even more pronounced over the next several years since the recession has exposed so many to the penalties, as well as the rewards, that can come with home ownership.

The upshot of these size and population imbalances is that many seniors simply will not be able to sell their homes and relocate to one of the traditional retirement settings when they deem it time to stop working. Where they are successful in selling their homes, the price concession necessary to accomplish the transaction may not confer the intrinsic economic advantage expected with a home sale. For those, retirement may not be so comfortable financially.

### LOW TAXES, FAST GROWTH

Only a handful of states have no income tax, with Nevada and Florida being among the least diverse in terms of their financial resources to make government work. That they would also be among the fastest growing and most troubled real estate markets hints at the lurking dangers of sparking economic diversification by touting fiscal conservatism while also ignoring required community investments. For years, Florida has refused to address the imbalances among growth, services and financial resources. It is not surprising that in 2009 the Pew Center on the States found Florida, Arizona and Nevada—along with Illinois, Michigan, New Jersey, Oregon, Rhode Island and Wisconsin—to be at grave budgetary risk.<sup>26</sup>

Over the last several decades, Florida's combination of warmer weather, lower housing prices generally, and a lower tax burden proved very attractive to migrating populations. For the younger populations, home ownership was deemed relatively affordable. For retiring populations, the state offered financial sanctuary by extending the resources of fixed or limited incomes. However, should the theoretical attractiveness of lower-cost living be stripped away, replaced instead by mounting bills for deficient services, Florida offers few advantages to leverage in the short term.

Like Nevada and Arizona, both foils for costly California, Florida is a tax haven for residents in the nation's Northeast and Midwest regions who may be considering migrating to a southern state. Compared with New York, New Jersey, Ohio, and Pennsylvania, which have been principal sources of in-migrants to this state over the last 10–15 years, Florida's tax burden (measured in terms of dollars per capita) has ostensibly proven beneficial to individuals and businesses. Florida's overall tax burden places the state among the lowest relative to income.<sup>27</sup> The most recent report ranks Florida overall at 47th, Nevada 49th and Arizona 41st. For comparison, New Jersey and New York lead at first and second place respectively. In terms of its

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business environment, the foundation ranks Florida fifth, Nevada fourth and Arizona a more distant 29th.

Even with its low tax burden, Florida's property taxes have been the subject of recurring news and political attention. The Tax Foundation edges Florida up to 22nd place on this single measure.<sup>28</sup> Because property taxes seem so visible, the very public rancor directed toward this levy may have discouraged future residents from choosing Florida, certainly given other economic considerations of a near-term concern. For those who believe their properties are now badly over-assessed relative to their *real* value, tax relief is relatively slow to come since property assessments often lag real activity in the marketplace.

The focus Florida's legislature has given to capping both taxes and spending continues to draw attention to the state's poor management and fiscal practices.<sup>29</sup> Without addressing the ideological merits of competing views, the consequences of ill-conceived or implemented policies have not proven compatible with increased *job* growth even if they spur some *population* growth. If low taxes are the most potent measure of economic prosperity, Florida would be a growth leader with its job and housing systems quickly recovering. Even the most ardent fiscal conservative can see the reverse is happening.

### THE IMPACT OF SEASONAL UNITS

According to the USCB, about 20 percent of the nation's seasonal homes are located in high-growth Nevada, Florida and Arizona.<sup>30</sup> By itself, Florida had more than 16 percent of the nation's seasonal homes, a percentage in excess of the state's proportionate population. If time-shares are added to Florida's count, the disproportion would be higher but their impact is not clear from the available data.

To reinvigorate the moribund economies of Florida and these other boom states, excesses in the seasonal housing must also be cleared. They will be sold to users or investors but many of the same considerations impacting general mobility and housing choice affect the market for the state's inventory of seasonal units as well as its permanent housing stock. As with other forms of housing, patterns of ownership elsewhere, financial resources and relative cost are important determinants of second-home purchases.

In Florida, many buyers will be from South America, taking advantage of strong growth or favorable currency

exchange rates as these conditions vary over time. In the context of this article, it is probably not unreasonable to assume these populations will continue to represent a buying segment but the numbers won't themselves be sufficient to offset other lost opportunities. If anti-immigrant fervor builds in Florida, as it has in Arizona, the economic consequences could be large.

For many American baby boomers approaching retirement age, seasonal or second homes in Florida, Arizona and Nevada are viewed as transitional homesteads, intended for eventual permanent residency. Should the boomers be precluded or constrained from making a seasonal purchase, they may never become permanent residents in Florida or other states seen attractive for retiree populations.

How second homes function in these states as transitional units for the future population may be speculative. What seems assured is that the current turbulence in the financial markets will retard favorable mortgages for second and seasonal homes for all but the most qualified buyers. Different banks and investors, of course, have their own criteria within federal guidelines. Among those criteria are their own internal standards for what comprise declining or failing markets. Many lenders—without doubt, the more conservative ones—have labeled Florida, Nevada and Arizona as stressed markets, placing them at the higher end of the risk scale.

Condominiums, as second or seasonal homes, pose a different set of problems for lenders and buyers. Condominiums have underwriting criteria different from that applied to single-family units, and now typically carry onerous conditions or terms, if prospective buyers qualify at all.<sup>31</sup> While mortgage guidelines speak to the investment *preferences* of individual institutions, these lenders must stay within federal rules and regulations that are already assuming draconian change.<sup>32</sup>

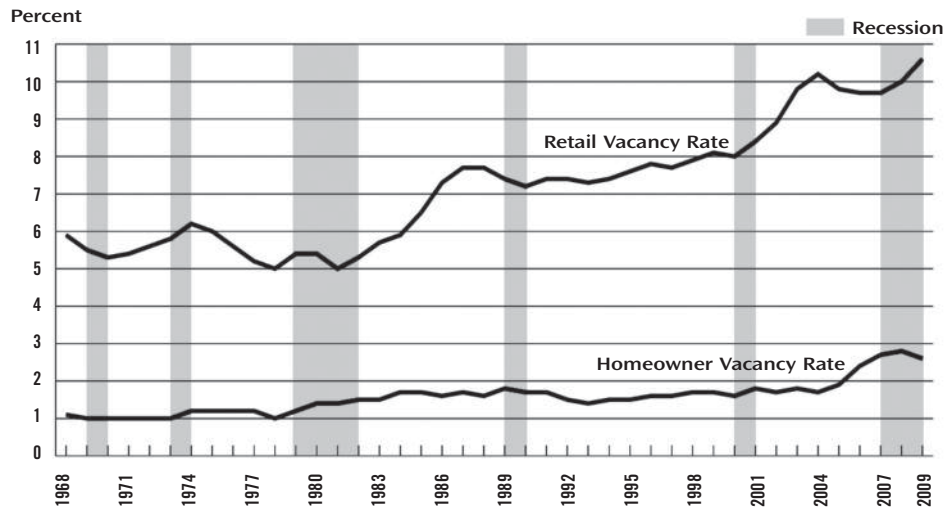
### SALES VELOCITY

The data available from the National Association of REALTORS® (NAR) measure the speed and velocity of sales without addressing the matter of occupancy. The latest reports show some slowing in sales activity but there have been sparks of interest, probably stemming from tax credits. From the standpoint of a beleaguered lender or homeowner, a sale reported by NAR is something of a victory. For the moment, set aside the downward pressure on prices that has occurred in the course of this improving sales pace compared *with a*

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Figure 1

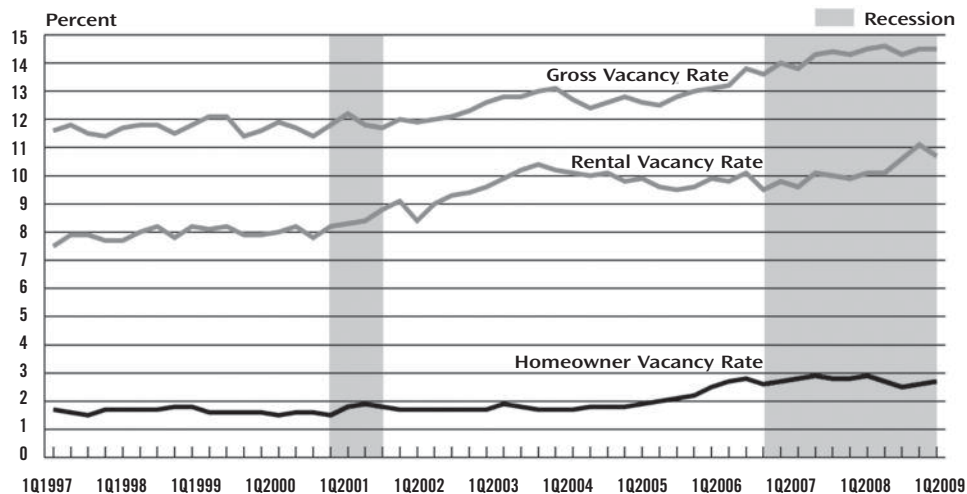
## Annual Rental and Homeowner Vacancy Rates for the United States: 1968–2009



Source for Recession Data: National Bureau of Economic Research, Inc., 1050 Massachusetts Ave., Cambridge, MA

Figure 2

## Quarterly Rental and Homeowner Vacancy Rates for the United States: 1997–2009



Source for Recession Data: National Bureau of Economic Research, Inc., 1050 Massachusetts Ave., Cambridge, MA

badly depressed past year. It is evident that the volume of transactions is not having the hoped for effect on overall vacancy rates. They remain virtually unchanged for the rental and ownership inventories combined.

The USCB reported that the nation's rental vacancy rate for the 4th quarter of 2009 was higher than the 4th quarter 2008 rate (10.1 percent), but not statistically

different from the 3rd quarter (11.1 percent).<sup>33</sup> Among homes intended for owner occupancy, the 2.7 percent vacancy rate achieved in the 4th quarter of 2009 was not statistically different from the 4th quarter 2008 or from the 3rd quarter. Nationwide, there are now almost two million vacant units for sale despite the upturn in activity. As the graphs illustrate, the nation's housing vacancy rates have never been higher during other periods of recession.

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These trends and numbers offer perspective on Florida's inventory and vacancies which are well above the average for the remainder of the U.S. In Florida, the 4th quarter vacancy rate for the rental inventory was 15.3 percent. Three other states—Arizona, Kentucky and Alabama—were higher.<sup>34</sup> The 4th quarter rate for the ownership inventory was 4.1 percent in Florida. At the end of December 2009, Nevada was the only other state with a home ownership vacancy rate higher than Florida.

The failure of the sales pace to clear the inventory of vacant units suggests that a transfer of ownership is not systematically matching an actual user with the unit in question. In some cases, bargain units acquired through short sales or foreclosures may themselves subsequently become short sales or foreclosures.

### CONDOMINIUMS AND THEIR IMPACT ON VALUES

From 1968–2008, the *detached single-family* vacancy rate had rarely exceeded 1.7 percent, never exceeding 2.0 percent. At the end of the 4th quarter of 2009, the rate had jumped to 2.3 percent, decreasing from 2.5 percent for the same period in 2008. Not surprising, multi-family units in larger, attached structures (those with five units or more) intended for home ownership had higher vacancy rates, 9.2 percent, up from 8.4 percent through the 3rd quarter and up for the same period in 2008.<sup>35</sup> These are not the worst rates historically but they combine with somewhat smaller structures to yield one of the worst overall occupancy rates. Though discrete data are lacking, given their physical configuration, these are likely to be largely condominium properties.

Data from NAR offer a glimpse into this segment of the residential industry which anecdotally, over the past five years, has repositioned many urban projects and settings.<sup>36</sup> The NAR data, as of late 2009, seem to indicate that Florida remains disproportionately represented among those states with the most seriously deteriorating condominium markets.<sup>37</sup> Seven of the reported ten worst declines are in major metropolitan areas within Florida. Orlando is at the top of the list, suffering a 56 percent decline in median sales price since 2008. Not surprising, the three other metro areas in the top ten are located in Arizona and Nevada, with Las Vegas in the second position.

One factor contributing to crashing prices is the obvious difficulty in securing favorable mortgages. Implicitly, the

aversion of lenders requires that condominiums be purchased for cash or with substantial down payments. Ironically, the family or individual most suited to these now lower priced units also will be the same family or individual who would most likely not have the cash resources to make the purchase in the first place. Consequently, units available for purchase are left to large investors whose bulk purchases remove inventory but further reduce values and prices. Several examples in Florida offer anecdotal evidence of these effects.<sup>38,39,40</sup>

In any case, the acquired condominium still must be occupied, and the rising vacancy rates indicate occupancies are not improving at the moment. Left unoccupied, and possibly moving into a state of permanent physical decline, these units may become uninhabitable. They already are becoming a management concern as owners and distressed owners clash over financial responsibilities of maintenance and upkeep.<sup>41</sup>

### COMPETING STATES

Under now outdated assumptions, Florida was projected to replace New York as the third largest state in just a few years. While it eventually will achieve that position, the population could reflect a different cultural or socioeconomic composition than once expected and, in the short run, slowing growth offers little to abate the state's supply of residential inventory.

For reasons cited, Florida's preference as a haven for retirees and second-homeowners is being challenged by Georgia, North Carolina and Tennessee, among others. Because the economies of neighboring states have not shown a dependency on these population segments, their housing inventories, even if excessive, have not been as badly overbuilt as in Florida. Consequently, their economic recovery is plausibly swifter. In the race for population stability, these other states—while not reaching Florida's numbers—will become more attractive, drawing some population away from Florida.

At the same time, some 19 million total housing units in the nation remain vacant. Expressed in absolute numbers, the sum is a historic high. In this context, Florida does retain certain locational advantages even as the disadvantages must be acknowledged. Still, the housing options across the country reflecting style, price and location are far greater than they have ever been before because the levels of production achieved in the last four years were so extraordinarily high.

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### VARIATIONS IN POPULATION PROJECTIONS

The BEBR remains the state of Florida's most recognized source of projected population. Arizona and Nevada have similar resources that guide legislative initiatives and function as controls for the distribution of some funds.

In the case of Florida, statutory rules (9J-5) require that the data be used to guide planning for the built environment. The data are treated as immutable, not as a measure of what *could* be. In the current economic environment, the limitations in the data may lead both investors and regulators to flawed decisions about the likely future, especially if plans involve extremely large projects. These have been the foundation of Florida's residential growth.

Several forces are working to intervene in this calculus, which has historically equated population with a prescribed number of housing units but it's too early to determine the true effect. On one hand, the rate of household formations is slowing due to a variety of social and economic causes. These formations are producing smaller households, so a moderately increased number of units are still required, though the units themselves may be smaller in size. On the other hand, among some ethnic groups, the growing number of extended families suggests that the housing inventory will expand at the rate below that of population growth. This latter indicator, with its dampening effects on housing, is itself mitigated by the high birth rate among these same populations. This higher birth rate would normally drive an increased rate of household formations.

Then there are the confounding reports coming from Andrew Hacker, a sociologist at Queens College of the City University of New York, who claims a decline in the birth rate resulting from the recession.<sup>42</sup> In 2007, the number of births in the U.S. exceeded those during the baby boom. But last year there was a decline, according to data from the National Center for Health Statistics. Specific to Arizona and Florida's rapid population trajectories, births declined in the former about 3 percent during 2008, the first decrease since 1991 when there was also an economic slowdown. In the beginning of 2009, there were 7 percent fewer births than the year before. These numbers follow the jobless rate which increased from 5.5–8.7 percent over the same time period.

These are obviously competing forces and trends but the argument for smaller families and fewer households is especially compelling in the wake of the recession. If Hacker's analysis holds, his sharply falling rates would

offer the prospect of materially lower populations and fewer household formations, certainly over a lengthy planning horizon.<sup>43</sup>

### SETTLEMENT PATTERNS

While intuitively attractive, residents are *not* returning to the nation's central cities on a massive scale. The data do not support these claims. The fact remains that urbanizing trends are at best nascent, and it will require many years before a major shift in residential patterns and work settings occurs. At the most basic level of scrutiny, it is hard to conceive that the nation's existing central cities, without unprecedented intensification, have adequate land to satisfy the need of the nation's expected population.

According to Nathaniel Baum-Snow of Brown University, there are substantive economic forces that tether industry, workers and residents to the suburbs.<sup>44</sup> Because of available infrastructure, productivity has increased while many firms have decentralized. Baum notes in his recent paper that *both* jobs and residents from 1960–2000 continued to elect suburban locations at about the same rate, an option enabled partially by investments in infrastructure, saving time and costs. Despite claims and complaints to the contrary, the time metric is observable in a simple statistic: the mean commute by car is about 25 minutes.<sup>45</sup> The commute by public transportation systems require literally twice that amount of time.

Let's be clear: the argument *isn't* that a trend may not be forming. Nor is it that policies enhancing urbanization or intensification are inappropriate. Rather, conditions still largely favor the suburban form of development because it has certain efficiencies and scale, is compatible with mainstream lifestyle choices and offers the capacity for growth. From the perspective of the user, it has the advantage of at least appearing to be far cheaper. Because of their cost basis, dense urban dwellings are relatively inelastic in their pricing structure. They seem much less likely to see the absolute declines in price now sweeping the nation's outer rings where housing options abound.

The corollary is that the suburbs, even at their distance and the cost of fuel, may recover more quickly than we imagine. Places like Florida with plentiful land, fully entitled for development, may benefit.

### THE PREFERRED PLACES

Is it possible to be more specific about the communities and locations in the U.S. where growth is likely to occur? If the various considerations outlined in this article have

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merit, they hint that growth capacity may exist in some locations but fall short in others. Where growth pressures should be most evident are in those jurisdictions that have historically had the greatest growth simply because they can demonstrate stability and have a foundation capable of supporting additional growth. More simply, unless disrupted, growth will follow its current path.

Consider that the 50 largest of the nation's census-designated metropolitan areas were all established many decades ago, and all but four continue to support growth based on 2000 population counts.<sup>46</sup> Viewed as relatively nascent urban communities, the metropolitan areas of southeast Florida (rank: 7), Tampa (rank: 19), Jacksonville (rank: 40) and Orlando (rank: 27) are all on this aging list of significant commercial centers.

### CONCLUSION

Fairly and correctly, other industry analysts will offer their opinions concerning overlooked real estate trends or market influences. Some of these will deal with the function of the credit markets. Obviously credit enables real estate opportunities, whatever they are, to be realized. The trends described in this article, however, are substantially more basic than matters associated with credit markets that should themselves be responding to the dictates imposed by users of the nation's real estate assets. The state of the economy evidences the credit markets broadly ignored underlying demand. While locational considerations have been discussed, preferences for particular *forms* of housing have been addressed only minimally. But preferences have proven to be transitory. *Too many* houses or *too many* shopping centers, if nothing else, results in misallocation of resources.

The industry's brokers, developers, builders, and economists will infer different interpretations of the trends that *are* identified. That too is fair, but overall those mentioned have been discussed in terms of their relative advantages and disadvantages to lend competing perspectives.

Accepting the likelihood of oversights or added interpretation, the trends outlined here give fewer reasons to be optimistic than pessimistic and more reasons to be cautious. In the main, they lead to the worth in reexamining conventional thinking. On balance, the evidence reinforces that recovery will be slower rather than faster, and the numbers necessary to right the market are far bigger than many people fully appreciate. In this context, Case-Shiller's outlook and the rate of employment growth

are particularly sobering. While it should not be inferred that claims are being made for a sudden, second downturn, such an event is not an impossibility. Indeed, this article is largely silent on the growing storm in the commercial marketplace.

Enough forces are in play to suggest that the nation's suburbs, though they may be objectionable on many counts, will remain an integral part of the built environment. Florida, for better or worse at this stage of its development history, is dominated by this pattern of activity simply because the supply of newer housing necessary to support its large population has been sited there. The *needs* of the future population, when matched to the character of today's housing stock, may be somewhat debatable. Past rates of population growth, however, are subsiding. This decline signals, at the very least, a need to examine older ideas about the linkages between buyers and sellers. Many variables are working together to dampen the rate of job and population expansion, some of which must be assumed as structural. Without regard to their location, we may simply need fewer homes to accommodate the future population.

Absent some cataclysmic event (hurricanes: New Orleans) or industry movement (Disney: Orlando), growth favors settings where it has proven fertile over many years. In the places where population growth is occurring, the suburbs seem better positioned because of cost, precedent, available supply, and simple preference. They have obvious locational advantages that policy cannot simply *undo*. As a result, the excess lot and home inventories may yet find buyers over time. Florida looks very attractive weighed on this scale of variables.

Most of the observations described in this article involve long-term perspectives that the real estate industry is rarely willing or needs to address except for the most costly or unusual projects. Builders and developers rarely have been able to contain themselves as the market shows even the faintest signs of moving forward. The observations summarized are not a substitute for careful and insightful evaluation of local market trends and influences, but these considerations might form the basis of an initial checklist, again for larger projects in particular.

If the conditions described are not structural, they absolutely affect each Florida community in the short term nonetheless, in large measure because the state's revenue structure is closely correlated to growth in the real estate industry. This connection is a policy matter,

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not strictly a growth matter.

There is scant evidence that the fiscal and job challenges facing Florida and similarly constructed states will abate in any immediately foreseeable time frame. Consequently, this data might flag caution for other states with dependence on very discrete industry sectors and large numbers of migrating retirees or seasonal residents. Although neither Arizona nor Nevada have Florida's level of growth, investors eager to act there should observe this state's struggles to regain stability. The comments in this article aptly apply to these states but the social cost is significantly lower because their populations are so much smaller. Logically, the ideas outlined should relate to other states identified by Pew as also financially at risk.

While economic conditions in the past made Florida, Nevada and Arizona more attractive in the context of their neighbors, the current circumstances do not favor these states or their leisure industries. California has some of the problems that Florida, Nevada and Arizona also face. Unlike these areas, it has a mature and diversified economy that will cushion its current condition. The same should apply to Oregon.

New construction seems almost out of the question for many years in the boom states, so it is not without irony that lost real estate value, much of it concentrated largely in suburban settings, may be the salvation bringing recovery. As a result of diminished development, well located properties, listed well below replacement, will look like good buys to astute purchasers. These properties should be the first to clear the market. *Very* patient capital in the most troubled settings will experience absolutely no limit to these other opportunities presented. ■

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