

ARE AMERICANS READY TO DOWNSIZE?

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Something of a trend is developing across the United States. A growing number of (mostly) empty-nester couples are selling their suburban homes sitting on large land parcels and moving into more urbanized communities. The demographics are made clear in data published by the U.S. Bureau of the Census: households without children are projected to comprise around three out of four households by the year 2025. With this shift in household composition will come the question of what will happen to the millions of huge, suburban "McMansions" as the demand for this type of housing subsides.

Ever-rising land prices and community resistance to high-density development proposals have combined to convert open space into low-density housing developments farther and farther from our main urban centers. A secondary trend has also occurred, which is the replacement of existing, smaller homes with new structures that are both larger and far more amenity rich. Rising land prices attract higher income buyers into communities, and the structures they have built attract even higher income buyers, further driving up land prices. For long-term residents, there is the benefit of being able to capture the gain in land prices they did nothing to bring about; but there is also the shorter-term financial challenge of rising property tax bills.

Public uproar over rising property taxes

and the resulting displacement of moderate-income households from their communities has pushed some local governments to proactively resist market pressures by protecting homes in some neighborhoods as historic places. Another measure is to restrict the size of a structure based on the size of the land parcel. City planners are increasingly charged with approving the design of new structures so that they are consistent with "the character" of the community. The use of tax credits to preserve historic structures is also a tool finding increasing use.

According to officials at the National Association of Home Builders, although the number of huge homes being built is declining, the average size of new homes is still large by historic standards - 2,500 square feet. Homebuyers are increasingly concerned with utility and other maintenance costs, as well as the time and expense required to care for large, landscaped yards. Despite the reverse migration of some households back to the cities and inner ring suburbs, new construction in distant suburbs continues in the face of skyrocketing costs to own and operate an automobile, and to heat and cool a single-family detached home.

One housing analyst who has followed housing markets for several decades forecasts that by 2025 there will be no buyers for as many as 22 million homes constructed on large land parcels. In that case,

what is likely to occur is the transfer of these properties to investors who will convert them into multi-family properties, either for sale (as condominiums) or lease (as apartments).

The sad thing about all this is that none of the sprawling development we have experienced needed to occur. Counter-productive and destructive public policies triggered these trends. One public policy, the move of local communities, school districts and counties to a land-only property tax base would have prevented this wasteful pattern of development. Demographic trends have resulted in rising land prices in many older, established communities, and rising land prices have been accompanied by even heavier speculation in land. The consequences are everywhere observable.

Change is here and the pace of change is accelerating. Unless community leaders change the single-rate system of property taxation to a two-rate structure (that gradually increases the effective rate of taxation on land values), the percentage of people who will be harmed by these changes will far outpace those who will benefit.