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The Next Slum?

THE SUBPRIME CRISIS IS JUST THE TIP OF THE ICEBERG. FUNDAMENTAL CHANGES IN AMERICAN LIFE MAY TURN TODAY'S MCMANSIONS INTO TOMORROW'S TENEMENTS.

By *Christopher B. Leinberger*

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Strange days are upon the residents of many a suburban cul-de-sac. Once-tidy yards have become overgrown, as the houses they front have gone vacant. Signs of physical and social disorder are spreading.

At Windy Ridge, a recently built starter-home development seven miles northwest of Charlotte, North Carolina, 81 of the community's 132 small, vinyl-sided houses were in foreclosure as of late last year. Vandals have kicked in doors and stripped the copper wire from vacant houses; drug users and homeless people have furtively moved in. In December, after a stray bullet blasted through her son's bedroom and into her own, Laurie Talbot, who'd moved to Windy Ridge from New York in 2005, told *The Charlotte Observer*, "I thought I'd bought a home in Pleasantville. I never imagined in my wildest dreams that stuff like this would happen."

In the Franklin Reserve neighborhood of Elk Grove, California, south of Sacramento, the houses are nicer than those at Windy Ridge—many once sold for well over \$500,000—but the phenomenon is the same. At the height of the boom, 10,000 new homes were built there in just four years. Now many are empty; renters of dubious character occupy others. Graffiti, broken windows, and other markers of decay have multiplied. Susan McDonald, president of the local residents' association and an executive at a local bank, told the Associated Press, "There's been gang activity. Things have really been changing, the last few years."

In the first half of last year, residential burglaries rose by 35 percent and robberies by 58 percent in suburban Lee County, Florida, where one in four houses stands empty. Charlotte's crime rates have stayed flat overall in recent years—but from 2003 to 2006, in the 10 suburbs of the city that have experienced the highest foreclosure rates, crime rose 33 percent. Civic organizations in some suburbs have begun to mow the lawns around empty houses to keep up the appearance of stability. Police departments are mapping foreclosures in an effort to identify emerging criminal hot spots.

The decline of places like Windy Ridge and Franklin Reserve is usually attributed to the subprime-mortgage crisis, with its wave of foreclosures. And the crisis has indeed catalyzed or intensified social problems in many communities. But the story of vacant suburban homes and declining suburban neighborhoods did not begin with the crisis, and will not end with it. A structural change is under way in the housing market—a major shift in the way many Americans want to live and work. It has shaped the current downturn, steering some of the worst problems away from the cities and toward the suburban fringes. And its effects will be felt more strongly, and more broadly, as the years pass. Its ultimate impact on the suburbs, and the cities, will be profound.

Arthur C. Nelson, director of the [Metropolitan Institute at Virginia Tech](#), has looked carefully at trends in American demographics, construction, house prices, and consumer preferences. In 2006, using recent consumer research, housing supply data, and population growth rates, he modeled future demand for various types of housing. The results were bracing: Nelson forecasts a likely surplus of 22 million large-lot homes (houses built on a sixth of an acre or more) by 2025—that's roughly 40 percent of the large-lot homes in existence today.

For 60 years, Americans have pushed steadily into the suburbs, transforming the landscape and (until recently) leaving cities behind. But today the pendulum is swinging back toward urban living, and there are many reasons to believe this swing will continue. As it does, many low-density suburbs and McMansion subdivisions, including some that are lovely and affluent today, may become what inner cities became in the 1960s and '70s—slums characterized by poverty, crime, and decay.

The suburban dream began, arguably, at the New York World's Fair of 1939 and '40. "Highways and Horizons," better known as "Futurama," was overwhelmingly the fair's most popular exhibit; perhaps 10 percent of the American population saw it. At the heart of the exhibit was a scale model, covering an area about the size of a football field, that showed what American cities and towns might look like in 1960. Visitors watched matchbox-sized cars zip down wide highways. Gone were the crowded tenements of the time; 1960s Americans would live in stand-alone houses with spacious yards and attached garages. The exhibit would not impress us today, but at the time, it inspired wonder. E. B. White wrote in *Harper's*, "A ride on the Futurama ... induces approximately the same emotional response as a trip through the Cathedral of St. John the Divine ... I didn't want to wake up."

The suburban transformation that began in 1946, as GIs returned home, took almost half a century to complete, as first people, then retail, then jobs moved out of cities and into new subdivisions, malls, and office parks. As families decamped for the suburbs, they left behind out-of-fashion real estate, a poorer residential base, and rising crime. Once-thriving central-city retail districts were killed off by the combination of regional suburban malls and the 1960s riots. By the end of the 1970s, people seeking safety and good schools generally had little alternative but to move to the suburbs. In 1981, *Escape From New York*, starring Kurt Russell, depicted a near future in which Manhattan had been abandoned, fenced off, and turned into an unsupervised penitentiary.

Cities, of course, have made a long climb back since then. Just nine years after Russell escaped from the wreck of New York, *Seinfeld*—followed by *Friends*, then *Sex and the City*—began advertising the city's renewed urban allure to Gen-Xers and Millennials. Many Americans, meanwhile, became disillusioned with the sprawl and stupor that sometimes characterize suburban life. These days, when Hollywood wants to portray soullessness, despair, or moral decay, it often looks to the suburbs—as *The*

Sopranos and *Desperate Housewives* attest—for inspiration.

In the past decade, as cities have gentrified, the suburbs have continued to grow at a breakneck pace. Atlanta's sprawl has extended nearly to Chattanooga; Fort Worth and Dallas have merged; and Los Angeles has swung a leg over the 10,000-foot San Gabriel Mountains into the Mojave Desert. Some experts expect conventional suburbs to continue to sprawl ever outward. Yet today, American metropolitan residential patterns and cultural preferences are mirror opposites of those in the 1940s. Most Americans now live in single-family suburban houses that are segregated from work, shopping, and entertainment; but it is urban life, almost exclusively, that is culturally associated with excitement, freedom, and diverse daily life. And as in the 1940s, the real-estate market has begun to react.

Pent-up demand for urban living is evident in housing prices. Twenty years ago, urban housing was a bargain in most central cities. Today, it carries an enormous price premium. Per square foot, urban residential neighborhood space goes for 40 percent to 200 percent more than traditional suburban space in areas as diverse as New York City; Portland, Oregon; Seattle; and Washington, D.C.

It's crucial to note that these premiums have arisen not only in central cities, but also in suburban towns that have walkable urban centers offering a mix of residential and commercial development. For instance, luxury single-family homes in suburban Westchester County, just north of New York City, sell for \$375 a square foot. A luxury condo in downtown White Plains, the county's biggest suburban city, can cost you \$750 a square foot. This same pattern can be seen in the suburbs of Detroit, or outside Seattle. People are being drawn to the convenience and culture of walkable urban neighborhoods across the country—even when those neighborhoods are small.

Builders and developers tend to notice big price imbalances, and they are working to accommodate demand for urban living. New lofts and condo complexes have popped up all over many big cities. Suburban towns built in the 19th and early 20th centuries, featuring downtown street grids at their core, have seen a good deal of "in-filling" in recent years as well, with new condos and town houses, and renovated small-lot homes just outside their downtowns. And while urban construction may slow for a time because of the present housing bust, it will surely continue. Sprawling, large-lot suburbs become less attractive as they become more densely built, but urban areas—especially those well served by public transit—become more appealing as they are filled in and built up. Crowded sidewalks tend to be safe and lively, and bigger crowds can support more shops, restaurants, art galleries.

But developers are also starting to find ways to bring the city to newer suburbs—and provide an alternative to conventional, car-based suburban life. "Lifestyle centers"—walkable developments that create an urban feel, even when built in previously undeveloped places—are becoming popular with some builders. They feature narrow streets and small storefronts that come up to the sidewalk, mixed in with housing and office space. Parking is mostly hidden underground or in the interior of faux city blocks.

The granddaddy of all lifestyle centers is the Reston Town Center, located between Virginia's Dulles International Airport and Washington, D.C. Since it opened in 1990, it has become the "downtown" for western Fairfax and eastern Loudoun counties; a place for the kids to see Santa and for teenagers to ice skate. People living in the town can stroll from the movie theater to restaurants and then back home. A 2006 study by the Brookings Institution showed that Reston's apartments, condominiums, and office and retail space were all commanding about a 50 percent rent or price premium over the

typically suburban houses, office parks, and strip malls nearby.

Housing at Belmar, the new “downtown” in Lakewood, Colorado, a middle-income inner suburb of Denver, commands a 60 percent premium per square foot over the single-family homes in the neighborhoods around it. The development covers about 20 small blocks in all. What’s most noteworthy is its history: it was built on the site of a razed mall.

Building lifestyle centers is far more complex than building McMansion developments (or malls). These new, faux-urban centers have many moving parts, and they need to achieve critical mass quickly to attract buyers and retailers. As a result, during the 1990s, lifestyle centers spread slowly. But real-estate developers are gaining more experience with this sort of building, and it is proliferating. Very few, if any, regional malls are being built these days—lifestyle centers are going up instead.

In most metropolitan areas, only 5 to 10 percent of the housing stock is located in walkable urban places (including places like downtown White Plains and Belmar). Yet recent consumer research by Jonathan Levine of the University of Michigan and Lawrence Frank of the University of British Columbia suggests that roughly one in three homeowners would prefer to live in these types of places. In one study, for instance, Levine and his colleagues asked more than 1,600 mostly suburban residents of the Atlanta and Boston metro areas to hypothetically trade off typical suburban amenities (such as large living spaces) against typical urban ones (like living within walking distance of retail districts). All in all, they found that only about a third of the people surveyed solidly preferred traditional suburban lifestyles, featuring large houses and lots of driving. Another third, roughly, had mixed feelings. The final third wanted to live in mixed-use, walkable urban areas—but most had no way to do so at an affordable price. Over time, as urban and faux-urban building continues, that will change.

Demographic changes in the United States also are working against conventional suburban growth, and are likely to further weaken preferences for car-based suburban living. When the Baby Boomers were young, families with children made up more than half of all households; by 2000, they were only a third of households; and by 2025, they will be closer to a quarter. Young people are starting families later than earlier generations did, and having fewer children. The Boomers themselves are becoming empty-nesters, and many have voiced a preference for urban living. By 2025, the U.S. will contain about as many single-person households as families with children.

Because the population is growing, families with children will still grow in absolute number—according to U.S. Census data, there will be about 4 million more households with children in 2025 than there were in 2000. But more than 10 million new single-family homes have already been built since 2000, most of them in the suburbs.

If gasoline and heating costs continue to rise, conventional suburban living may not be much of a bargain in the future. And as more Americans, particularly affluent Americans, move into urban communities, families may find that some of the suburbs’ other big advantages—better schools and safer communities—have eroded. Schooling and safety are likely to improve in urban areas, as those areas continue to gentrify; they may worsen in many suburbs if the tax base—often highly dependent on house values and new development—deteriorates. Many of the fringe counties in the Washington, D.C., metropolitan area, for instance, are projecting big budget deficits in 2008. Only Washington itself is expecting a large surplus. Fifteen years ago, this budget situation was reversed.

The U.S. grows its total stock of housing and commercial space by, at most, 3 percent each year, so the imbalance between the supply of urban living options and the demand for them is not going to disappear overnight. But over the next 20 years, developers will likely produce many, many millions of new and newly renovated town houses, condos, and small-lot houses in and around both new and traditional downtowns.

As conventional suburban lifestyles fall out of fashion and walkable urban alternatives proliferate, what will happen to obsolete large-lot houses? One might imagine culs-de-sac being converted to faux Main Streets, or McMansion developments being bulldozed and reforested or turned into parks. But these sorts of transformations are likely to be rare. Suburbia's many small parcels of land, held by different owners with different motivations, make the purchase of whole neighborhoods almost unheard-of. Condemnation of single-family housing for "higher and better use" is politically difficult, and in most states it has become almost legally impossible in recent years. In any case, the infrastructure supporting large-lot suburban residential areas—roads, sewer and water lines—cannot support the dense development that urbanization would require, and is not easy to upgrade. Once large-lot, suburban residential landscapes are built, they are hard to unbuild.

The experience of cities during the 1950s through the '80s suggests that the fate of many single-family homes on the metropolitan fringes will be resale, at rock-bottom prices, to lower-income families—and in all likelihood, eventual conversion to apartments.

This future is not likely to wear well on suburban housing. Many of the inner-city neighborhoods that began their decline in the 1960s consisted of sturdily built, turn-of-the-century row houses, tough enough to withstand being broken up into apartments, and requiring relatively little upkeep. By comparison, modern suburban houses, even high-end McMansions, are cheaply built. Hollow doors and wallboard are less durable than solid-oak doors and lath-and-plaster walls. The plywood floors that lurk under wood veneers or carpeting tend to break up and warp as the glue that holds the wood together dries out; asphalt-shingle roofs typically need replacing after 10 years. Many recently built houses take what structural integrity they have from drywall—their thin wooden frames are too flimsy to hold the houses up.

As the residents of inner-city neighborhoods did before them, suburban homeowners will surely try to prevent the division of neighborhood houses into rental units, which would herald the arrival of the poor. And many will likely succeed, for a time. But eventually, the owners of these fringe houses will have to sell to someone, and they're not likely to find many buyers; offers from would-be landlords will start to look better, and neighborhood restrictions will relax. Stopping a fundamental market shift by legislation or regulation is generally impossible.

Of course, not all suburbs will suffer this fate. Those that are affluent and relatively close to central cities—especially those along rail lines—are likely to remain in high demand. Some, especially those that offer a thriving, walkable urban core, may find that even the large-lot, residential-only neighborhoods around that core increase in value. Single-family homes next to the downtowns of Redmond, Washington; Evanston, Illinois; and Birmingham, Michigan, for example, are likely to hold their values just fine.

On the other hand, many inner suburbs that are on the wrong side of town, and poorly served by public transport, are already suffering what looks like inexorable decline. Low-income people,

displaced from gentrifying inner cities, have moved in, and longtime residents, seeking more space and nicer neighborhoods, have moved out.

But much of the future decline is likely to occur on the fringes, in towns far away from the central city, not served by rail transit, and lacking any real core. In other words, some of the worst problems are likely to be seen in some of the country's more recently developed areas—and not only those inhabited by subprime-mortgage borrowers. Many of these areas will become magnets for poverty, crime, and social dysfunction.

Despite this glum forecast for many swaths of suburbia, we should not lose sight of the bigger picture—the shift that's under way toward walkable urban living is a healthy development. In the most literal sense, it may lead to better personal health and a slimmer population. The environment, of course, will also benefit: if New York City were its own state, it would be the most energy-efficient state in the union; most Manhattanites not only walk or take public transit to get around, they unintentionally share heat with their upstairs neighbors.

Perhaps most important, the shift to walkable urban environments will give more people what they seem to want. I doubt the swing toward urban living will ever proceed as far as the swing toward the suburbs did in the 20th century; many people will still prefer the bigger houses and car-based lifestyles of conventional suburbs. But there will almost certainly be more of a balance between walkable and drivable communities—allowing people in most areas a wider variety of choices.

By the estimate of Virginia Tech's Arthur Nelson, as much as half of all real-estate development on the ground in 2025 will not have existed in 2000. It's exciting to imagine what the country will look like then. Building and residential migration seem to progress slowly from year to year, yet then one day, in retrospect, the landscape seems to have been transformed in the blink of an eye. Unfortunately, the next transformation, like the ones before it, will leave some places diminished. About 25 years ago, *Escape From New York* perfectly captured the zeitgeist of its moment. Two or three decades from now, the next Kurt Russell may find his breakout role in *Escape From the Suburban Fringe*.

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