

# REALITY CHECK

Rising gas prices are fueling a new reality for commercial real estate. **RICK CHICHESTER** looks at how the cost of oil is changing how and where we live, work and play.

IMMEDIATELY FOLLOWING WORLD WAR II, the United States began a rapid migration from the cities to the suburbs. This was made possible by the substantial investments of the 1950s into our country's transportation infrastructure. The interstate system connected communities in ways that allowed the population more freedom of mobility—bedroom communities were being developed on the fringe of cities, connected by highways and fueled by the growth of the automobile and low-energy costs.

Today, with oil at an all-time high, the growing world's demand for commodities, and the increasing awareness of global warming and social responsibility, our current realities are being challenged. The new reality is that we need to change our behaviors with regard to how we live and utilize our resources.

Fortunately, those behavioral changes are already happening. Public transportation use is at a 50-year high, and gas purchases are down 2-3 percent. As Eric Roston, author of *The Carbon Age*, writes, "Nobody wants high oil prices, but there is no faster mechanism to change behavior."

These realities have a tremendous impact on the real estate industry. Over the next 10 to 15 years, there is the very real possibility that much of our way of living will change. There is a renewed interest to move back into the cities located and connected along public transportation corridors and into buildings that are energy efficient and environmentally responsible.

This move away from the five-decade-long expansion into the suburbs will begin to challenge how we think of real estate. Industrial facilities that have been principally organized around truck transportation will migrate more purposefully around the ports and rail systems. Building designs could change dramatically. Retail projects that are located too far out into the suburbs will be challenged to draw customers as a consequence of the rising cost of fuel, with "single" store, free-standing retail in the most transition due to its dependence on automobile traffic. Urban retail will expand; most retailers are already creating new urban proto-

types. Office buildings without the amenities of public transportation, energy efficiencies and retail/entertainment will decline in demand.

Additionally, with the cost of gas and energy, companies will rethink their work force strategies. Prepare to see increased interest in the four-day work week, job sharing, telecommuting and teleconferencing. With this, space utility will be impacted and there will be a continued decline in the amount of space required per person.

With regard to housing, a study released in May 2008 by CEOs for Cities—a national network of urban leaders dedicated to creating next generation cities—examined residential real estate values in five cities and found prices had fared far worse in the more distant neighborhoods.

"The collapse of America's housing bubble—and its reverberations in the financial markets—has obscured a tectonic shift in housing demand," wrote economist Joe Cortright in the white paper. "Housing in cities and neighborhoods that require lengthy commutes and provide few public transportation alternatives are falling in value more dramatically than those in areas that are more central, compact and accessible."

The new reality for real estate is that much is changing. Energy prices are high and they are most likely going to stay that way. There will be a move to cities and away from the suburbs as the population looks to conserve energy. The population not only seems ready to change, they are waiting for the new infrastructure—high speed rail, light rail, bus routes, etc.—to catch up. With this migration, real estate values will be challenged, resulting in a possible slowing of appreciation and/or decline in the suburbs and an increase of values in urban cores. In the end, where and how we live, work and play will transition into more efficient, effective and connected communities. [KL](#)

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