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Cheap house, costly commute - gas prices hurt affordable areas

Punished at the pump

Puget Sound Business Journal (Seattle) - June 2, 2006 by [Jeanne Lang Jones](#) Staff Writer

Here's one more benefit the wealthy enjoy -- their neighborhoods tend to be close enough to major employment centers that they often save thousands of dollars on gasoline compared with residents of the more affordable housing on the suburban fringe.

In fact, people in the 30 lowest-housing-priced ZIP codes in King, Pierce and Snohomish counties are likely to spend far more money driving to work than residents of the 30 priciest neighborhoods, according to a Puget Sound Business Journal analysis.

And if gas prices keep setting records, this trend could alter the local real estate market in significant ways, some experts predict.

Fuel prices have had limited impact on home purchases so far, but a sustained rise at the pump could push home prices higher in closer-in neighborhoods, while homes in outlying communities could begin to decline in value.

"Over the course of the last several years, home purchasers have been making their decision on where to live exclusively on housing prices," said Glen Crellin, director of the Washington Center for Real Estate Research at Washington State University. "Those who 'drive until they qualify' are now in a situation where the cost of that driving is going to play a role."

At issue: The price of filling the gas tank has gone up by nearly one-third over the past year, making the annual cost of driving to work equivalent to an extra mortgage payment for some homeowners. That deeper bite out of the budget is hard to overlook, especially for first-time buyers and families with moderate incomes.

Seventy percent of respondents say the price of gasoline is now a consideration in deciding where to live, according to a recent consumer survey by [HouseValues.com's HomePages.com](#) real estate service.

Sustained high gas prices could add fuel to some already heated housing submarkets, according to J. Lennox Scott, chief executive of Bellevue-based [John L. Scott Real Estate](#).

"Over the last decade as traffic has continued to build, we've seen increased demand close to job centers," Scott said. "Pricing has reflected that, with prices of homes higher closer-in to the job centers. With gas prices going up, that should just add some extra energy to that environment."

Meanwhile, demand could cool in some outlying suburban markets, said Kelly Mann, executive director of the nonprofit Urban Land Institute's Seattle District Council.

"An extended period of higher energy prices could really curtail fringe suburban growth over time," Mann said, "and dampen the demand for big houses with big heating and cooling bills."

The Business Journal estimated the average potential gasoline bill for a car commuter to downtown Seattle by calculating the driving distance from an amalgam of 30 of the most affordable neighborhoods (by average house value) in King, Pierce and Snohomish counties. From those areas, a hypothetical Seattle car commute has reached an eye-popping \$3,405, up an average of \$811 from the previous year.

By contrast, residents of the 30 highest-priced neighborhoods -- mostly closer-in enclaves such as Mercer Island and Montlake -- would average only \$982 driving to the same destination, up about \$237 from the previous year.

A similar pattern was found with other major Puget Sound area employment centers, such as the Microsoft Corp. campus in Redmond, the Boeing Co. plants in Renton and Everett, and downtown Bellevue.

The calculations were based on the \$3.22 average cost of a gallon of regular unleaded in Seattle on May 18, as reported by the [AAA-Washington](#). A year earlier, the same gallon was \$2.45. Comparative housing data were provided by ESRI Business Information Solutions. Commute costs were calculated by averaging the distances between the ZIP codes and downtown Seattle, and multiplying the result by the cost of commuting five days a week, 50 weeks a year. Vehicle mileage

was estimated at 20 mpg.

To be sure, many residents of more affordable areas find jobs close to their homes, take transit, pursue home-based businesses or telecommute. And experts say a clear-cut impact of gas prices on the cost of housing depends on fuel prices remaining high.

"I think at \$3 a gallon, that's enough to make a difference," said Robert Dunphy, a senior resident fellow with the Washington, D.C.-based Urban Land Institute who specializes in transportation and infrastructure. "If it stays there, it will start to affect people's behavior."

His rough rule of thumb is that for every 20 percent growth in an item's cost, there is a 7 percent cutback in demand. If gas prices remain high, Dunphy predicts people will begin to avoid making longer-haul commutes.

"There's a delicate balance where people are more reluctant to commute that far and that starts to affect the price of housing," Dunphy added. "The nature of this balancing act is that you are trading transportation costs against housing costs."

Prices for outlying properties may slip as more people are willing to pay a little more for a house in order to pay less for transportation, he said. Then, after prices hit a certain point, a new equilibrium will be struck and cheaper house prices will again lure buyers back to outer suburbia.

"It creates a particular dilemma for people of modest means. It is an issue society has tried to avoid by trading distance and transportation costs for housing costs," said Dan Carlson, a senior lecturer at the Evans School of Public Affairs at the University of Washington. Soaring fuel prices could prompt revision of the state's Growth Management Act to boost the amount of affordable housing counties include in their mix, Carlson said.

Another possibility could be a location-efficient mortgage program, a relatively new concept under which home buyers are allowed to borrow a bit more for a house in a community where their commutes are shorter, in recognition that their transportation costs will be substantially less.

Before housing prices are affected, however, homeowners will take less drastic steps to control costs, such as switching to a hybrid car or eliminating the extra car their teenager drives, Dunphy said.

It also helps that some buyers choose to buy less house than they can afford so that they can better absorb any added costs, such as remodeling projects or higher gas prices.

T.C. Hyatt, a Realtor in the Everett office of John L. Scott Real Estate, said he is starting to see some "emotional reflection" among buyers in response to the combination of rising interest rates and gas prices.

"If they keep moving in parallel," Hyatt said, "we will definitely have some reconsideration of what people's needs will be."

With a rise in interest rates, he has already seen clients buy less expensive homes than they would have a year ago. Further cost increases could prompt buyers to cut back on features such as bonus rooms.

"There's been a lot of pressure for buyers, especially first-time buyers, to try to stay near the (King) county line, rather than in Arlington or Smokey Point," Hyatt said. Those communities are in the north end of Snohomish County.

Hyatt expects the combination of high fuel costs and rising interest rates could strengthen the selling market for the Eastside and south Snohomish County.

"People will want to live closer in and that will be more important than having a huge yard," Hyatt said. He also sees greater interest among buyers in living closer to transit routes.

Nearer-in neighborhoods north of Seattle also could be affected, according to Leslie Williams, president of Seattle-based [Williams Marketing Inc.](#)

"Some communities that have not had much activity will pick up," Williams predicted. "Phinney Ridge/Greenwood and Ballard already have seen a lot."

However, Debra Hodges, an owner/broker at [Ehresman Hodges Real Estate Service](#) in Graham, sees little change among her south Pierce County buyers.

"People who move out here work right in this area or move out because it is a rural area," Hodges said. "They don't worry too much about gas prices."

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