



e-merging directions

timely research on current commercial real estate topics

How rising energy costs influence the real estate market

Surging energy costs are directly impacting the real estate market. From the locations of manufacturing plants and distribution centers to zoning density regulations to the value of land in outlying areas, the rise in fuel costs is influencing real estate's fundamental underpinnings. Recent reversals in the prices of oil and gasoline notwithstanding, these impacts are likely to remain.

Density and land use are major concerns. The higher the density, the greater possibility there is to have a shorter commuting distance. Municipalities are rethinking zoning density and use mixtures because they want to intensify density in some close-in areas where travel distances are shorter and public transportation options are more plentiful.

Zoning was created about 100 years ago in the United States to separate land uses so people didn't have to have their houses next to manufacturing plants. Little by little we've reversed that trend. People want to be closer to stores, for example, which used to be separated by zoning categories. Mixed use has become a popular phenomenon and has impacted shopping center designs. These are issues largely related to energy use and how people plan their days between their work schedules, their consumer needs and home life.

Land brokers have found it difficult to sell residential land in the exurbs. Part of this is due to the housing crisis. Another factor is the increased interest in coming closer in than the outlying areas. There was a saying in residential sales that went, "Drive until you qualify," which meant people would go further and further out until they could qualify for the loans for the houses they wanted to buy. This trend, however, is reversing because the energy costs offset the savings of the lower-priced housing. Outlying locations are definitely not as popular as before.

Most urban transportation systems have seen ridership increase. There is also a trend towards development around transit stations. Transit oriented development is a concept the Urban Land Institute has been promoting for a long time, but now it has come to pass that land around transit stations has become more valuable and higher density development is a good use of that land.

The issue is coordinating the land use decisions with the transportation system decisions. A high-density transportation system supports higher density development, and the higher density development helps support the transportation system. It's a mutually beneficial arrangement when those two decisions can be coordinated.

Energy costs are affecting transportation logistics and the size and location of distribution facilities. People have cited this as going in two different directions. On one hand, some are saying that because of transportation costs they need to have the distribution centers closer to the end user. Backers of this argument say it's best to have smaller distribution centers with more of them scattered around. Others say the opposite: because of deficiencies it's best to have larger distribution centers. This can be justified by having the distribution centers run by a third party logistics company that can realize savings by combining shipments of goods from multiple manufacturers.

Higher energy costs are also having an impact on overseas shipping, as there is now an effort to get goods from the Far East closer to the end user. Instead of unloading in Los Angeles or Long Beach, some ships are going through the Panama Canal to the East Coast. By getting the goods closer by ship to the end user, there are less transportation costs by truck or other less efficient means.

There have been some overseas manufacturing facilities that are now being questioned because of the distance goods must be shipped. In fact, even across borders, like Mexico, many manufacturers opened facilities to take advantage of lower labor costs. But given the distances the goods must travel from the manufacturing plant, to the distribution center, to the end user, the higher shipping costs may offset the savings from the lower labor costs.

The relationship between real estate and energy consumption is far-reaching, so we can expect many changes as the developed world considers how to deal with the price of oil and its alternatives.



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