



LEO J. SHAPIRO & ASSOCIATES LLC.

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The Restructuring of Real Estate

Real estate values are a consequence of where Americans decide to live, where they go to work, and where they shop. As Americans are rethinking how they live in the face of the costs of energy, real estate values are shifting in each of these areas.

A study conducted by Leo J. Shapiro & Associates in July found that more than one in four American households (25%) has begun to think about where they live as a consequence of energy costs and 6% think that they will move closer to work or to a smaller home to mitigate high energy prices within the next six months.

The study also finds 28% of households thinking about finding a job closer to home; 12% expect to do so within the next 6 months. Some of these households may decide to move closer to their present job, if they do not succeed in finding a job closer to their current home.

The Shapiro study finds that 84% of households owning a car or truck are now cutting back on driving. Fewer shopping trips and more local shopping is helping to achieve this.

The real estate value of many suburban malls is plunging as traffic declines and as anchor stores on which malls depend to draw traffic from a broad trading area shut down. Housing values have generally dropped in bedroom communities more than in central cities of metropolitan areas. These shifts in real estate values are likely to continue as suburban and exurban households move closer to where they work and as industry and commerce moves closer to where people live.

We are now seeing an end to suburban sprawl that was premised on low gas prices and public willingness to spend the drive-time needed to get to work. The almost universal desire of motorists to spend less time in their car is curtailing geographic expansion of metropolitan areas. Rising costs of farmland as the value of agricultural products increases can also be expected to contain metropolitan area expansion.

This trend will not be countervailed by expansion of mass transit. For more than sixty years, public investment has focused on highways and expressways. They continue to require maintenance and periodic renewal. With few exceptions, mass transit has had difficulty absorbing increases in traffic of as little as 2% - 5% in response to gas prices. While mass

transit may expand service in and near the central cities, significant investment in servicing more distant suburban populations is unlikely.

The changes in their lives that Americans are now considering and beginning to implement are not universally painful. While nearly half of Americans – 46% – say that the quality of their lives is diminished, 14% say that the changes compelled by energy prices are improving the quality of their life. In seven of ten instances the improvement is credited as time savings with more time being spent at home.

Collapse of the status quo is usually a difficult life experience. The finding that so far nearly one in seven American households view their response to high energy costs as beneficial to their life suggests that these changes are irreversible. Even if the cost of driving were to decline, new found satisfaction from doing less driving may discourage resumption of driving habits that have been true of Americans over the past 60 years.

“Over the past year the cost of gas and electricity to heat and cool homes has risen substantially. It is expected that these increases are more or less permanent and will continue to rise. To cope with these increasing costs have you or anyone else in your household thought about...? Will you be actually doing so in the coming six months?”

	Thought <u>about</u>	Will do so in <u>coming 6 months</u>
Changing where you live?	17%	3%
Living in a smaller house or apartment?	16%	5%
NET (Either one)	25%	6%
Finding a job closer to home?	28%	12%

Leo J. Shapiro & Associates July 2008 National Study of 450 US households interviewed by telephone.

*For more information on studies underlying this report,
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