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# Valuing the Suburbs: Why Some “Improvements” Lower Home Prices

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## *Abstract*

A recent effort to precisely gauge how much a particular improvement will add to a home's sale price reveals some surprising insights about the nature of the suburbs. Research shows that not all home improvements pay off—even some rather expensive ones. Hedonic modeling of recent sales data shows that characteristics such as professional offices and in-law suites can lower a suburban home's price.

This article explores the reasons why certain property elements actually devalue a house. It argues that the neighborhood context may determine the relative value of some housing characteristics. In general, features that add to a property's “urban intensity” can lower the sales price of single-family detached suburban homes.

The paper examines why suburban residents mostly resist changes that make their environment seem more like a city. It also considers what implications this resistance has for developers using New Urbanist design and suggests future research to better understand the market for denser and more urban suburbs.

**Keywords:** Suburbs, House Prices, New Urbanism, Homeowners' Associations

## Introduction

Pity the poor guy who puts a fence around his property only to have a homeowners' association tell him to tear it down. Such horror tales are by now legend in the suburbs.<sup>1</sup> But in an odd twist on the story, it turns out that the homeowners' association may have been doing our victim a favor—a new study that looks at the way

housing characteristics affect sales price finds that having a fence knocks 2.8 percent off a home's value (Sirmans and Macpherson 2003).

Economist William Fischel (2003) argues that the homeowners' associations seek to preserve home values through covenants such as

<sup>1</sup> For a recent article that describes the power of homeowners' associations, see (McKenzie 2003).

ones preventing fences. Fischel (2001) developed the “homevoter hypothesis,” which suggests that suburban homeowners behave “rationally” to protect their house equity by carefully excluding land uses that could reduce property values. Homeowners’ associations, through their extensive and enforceable covenants, are an excellent means to this end. This is one reason that homeowners’ associations are so popular (Lang 2003).

It is interesting to consider exactly what types of land use and housing elements homeowners’ associations often prohibit. Research describing homeowners’ associations and gated communities (which are homeowners’ associations with walls) are filled with examples of strict rules against seemingly trivial things (Blakely and Snyder 1997; Lang and Danielsen 1997; Low 2003; McKenzie 1994). Residents are mostly prevented from showing any hint that their property is used for purposes other than residential. This includes prohibitions against any advertising, or even parking a vehicle in the driveway with a business name or advertising on it.

This article addresses why a host of seemingly innocuous property characteristics are the scourge of suburbia. It uses a secondary analysis of recent hedonic modeling of home prices by Sirmans and Macpherson (2003). The findings from the home price research are interpreted using sociocultural approaches to the suburbs, especially the work of historian Robert Fishman (1987). The conclusion is that most conventional suburbs—or more specifically, suburban home buyers—devalue many

property elements that even hint at an urban intensity or utility.

### Hedonic Modeling Data: Some Counterintuitive Findings

Reporting on the work by Sirmans and Macpherson, *Washington Post* real estate columnist Ken Harney provides a simple explanation of hedonic modeling. He notes that hedonic regression “is designed to isolate each physical or locational attribute of a house, and quantify its relative effect—positive or negative—on the sales price of the property” (Harney 2004, p. F01).

The power of hedonic modeling is that it allows one to gauge the price impact of a specific house characteristic, while screening out the effects due to other qualities of the property. Thus a homeowner looking at these results can say “what is the value of putting a new full bathroom in my house?” The answer is—quite a lot, or about a quarter of its value.

Using hedonic modeling, Sirmans and Macpherson (2003) analyzed 28,828 home sales during two periods: 1996-1999 and 2000-2003. The sample covered only single-family detached homes, and not farmhouses, condos, or rowhouses. The typical home analyzed matches the profile of a mid-range suburban dwelling:

... the average selling price was \$213,335...the average house had 3.5 bedrooms, 1.80 full baths, and 0.68 partial baths. About three-fourths of the homes had a regular garage...Two-thirds of the homes had central air

conditioning...” (Sirmans and Macpherson 2003, p. 3).

The Sirmans and Macpherson study looked at home sales in 21 counties, in a region stretching from central New Jersey to northern Maryland.<sup>2</sup> The study area comprises a smorgasbord of features that can diminish privacy by encouraging strangers to walk past a property. Water views add 7.8 percent to a sales price, and houses built next to ponds are worth 8.1 percent more than a comparable home absent one. Even an irregular lot, which can make landscapes look like more natural and formal spaces, adds 2.2 percent over a square or rectangle parcel. (See Table 1.)

#### What Is Going On Here?

The finding that some major improvements to a house actually subtract from its value begs the question: what is going on here? What may be going on is a bias by purchasers of single-family detached houses against property characteristics that violate a suburban ethos. Such a bias is better explained by sociocultural analysis than economics, especially by historians who have studied the rise of American suburbs.

Fishman’s (1987) book *Bourgeois Utopias* about the origin and evolution of Anglo-American suburbs provides a good context for understanding why some housing elements lower value. Fishman traces a suburban ethos to the mid-19<sup>th</sup> century, when suburbs

emerged as a kind of antidote to cities in both Britain and America. Cities of the era overwhelmed their residents—both socially and physically. The 19<sup>th</sup> century city effaced all remnants of village life as they became concentrated centers of commerce that were filled with crowds of industrial workers.

**Table 1. Value of Selected Home Characteristics**

<b>Home Characteristic</b>	<b>Estimated Percent Change in Selling Price</b>
In-Law Suite	-5.2%
Professional Office	-5.0%
Sidewalk	-4.5%
Fencing	-2.8%
Corner Lot	-1.8%
Cul-de-Sac Lot	1.5%
Irregular Lot	2.2%
Wooded Lot	3.3%
Water View	7.8%
Pond	8.1%
Sprinkler System	8.7%
Paddock	24.0%

Source: Sirmans and MacPherson (2003)

The middle-class reaction to the “profane” world of the city was to construct a “sacred” one in the suburbs (Lang 1995). According to Fishman, suburbanites used nature (or more specifically, natural settings) as the alternative to the human-made city. Seeking refuge from cities overrun with strangers, the original suburbanites also turned inward to the life of the nuclear family and sought greater privacy (Fishman 1987).

<sup>2</sup>The counties in the study are Kent, New Castle, and Sussex in Delaware; Cecil in Maryland; Burlington, Camden Cumberland, Gloucester, Mercer, Middlesex, Monmouth, Ocean, Salem, and Somerset in New Jersey; and Berks, Bucks, Chester, Delaware, Lancaster, Montgomery, and Philadelphia Counties in Pennsylvania.

Thus suburbanites from the beginning have rejected land uses and housing types that smack of the city. The vigor of this disdain may have weakened over the many decades since its origin, but even in vestigial form it can still show up as evidenced in the hedonic modeling of home prices. Uses that add intensity or utility to a property run counter to the suburban ethos. By contrast, features that imply a less intense or natural use are still preferred. In suburbia, woods and horses are good, and access (read: sidewalks and corner lots) and work (or at least professional offices) are bad. In sum, country is in, city is out.

Obviously not every suburban setting meets the anti-urban ideal—but the more expensive ones usually do. The people who set up the rules in suburban homeowners' associations intuitively know this. They restrict most uses that even hint of the city. Take just one case: clothes drying on a line. Most homeowners' associations strictly forbid any outdoor drying, including even pool towels hung over porch rails (Lang and Danielsen 1997; Low 2003). Consider that during the recent California power shortage, associations strongly resisted relaxing this rule even though it would have lessened electric demand from dryers (Scheibe 2001; Rasnow 2001; Garofoli 2001). A news account of this odd situation quotes one resident as saying "when you see [clothes drying] you think of slums. You think of low-class areas. You think of poverty" (Garofoli 2001, A1). Thus in the middle of an energy crisis—in an arid climate conducive to drying—hanging one's laundry out to dry in a homeowners' association-governed community is simply not an option.

## Dual Suburban Housing Markets

Yet not everyone has an anti-urban bias. In fact, cities regained some popularity in the 1990s, especially their downtowns (Simmons and Lang 2003; Sohmer and Lang 2003). Even many new suburban developments are getting denser and more urban in look and feel (Danielsen, Lang, and Fulton 1999). There is some evidence that people will pay a price premium of about 15 percent to live in a New Urbanist (or neo-traditional) community over a comparable conventional suburban subdivision (Eppli and Tu 1999). How do these facts reconcile with the house price data presented above?

The most likely answer is that dual housing markets exist: one for conventional low-density suburbs, and one for cities and denser suburbs. Lang, Hughes, and Danielsen (1997) developed the concept of "suburban urbanites" (using target market data) to argue that some suburbanites show a preference for city living, including higher density housing. Myers and Gearin (2001) find that a large share of older households also seek denser built and more compact housing units than is found in low-density suburbs.

The evidence appears to indicate that a distinct housing niche exists for cities and city-like suburbs. A key issue is how large is this niche, and how does the demand for denser homes match up against the supply? Myers and Gearin (2001) argue that despite being a medium-sized niche market, demand for desirable denser homes may outstrip the current supply. In such a market, people may pay a price premium to live in some denser

(including New Urbanist) neighborhoods. This may help explain the finding by Eppli and Tu (1999) that New Urbanist communities have higher valued dwellings than a typical lower-density suburb with comparable housing characteristics.

### Policy Recommendations

While a good New Urbanist or city neighborhood may attract plenty of buyers, suburban homes that have some urban elements may not be in high demand. Many places with urban feel and amenities, including mixed uses, attract city lovers. But a granny flat slapped on to the back of a single-family detached suburban home does not a city make. In most conventional lower-density suburbs, the market favors (as evidenced by house price analysis) properties that are decidedly un-city like. Houses that have city features (even just sidewalks) are neither fish nor fowl—they can be out-cited and out-countried.

The key implication for those developing neo-traditional communities, which feature denser housing, alley ways, and mixtures of single and multifamily units, is to not go halfway. There seems to be no value (or perhaps negative value) in just incorporating some neo-traditional features, and yet keeping a mostly conventional suburban land use pattern. Most New Urbanist builders would agree—they want to build total communities and not just typical suburban homes on smaller lots (Sohmer and Lang 2000). They also fear that some developers will just grab

some New Urbanist design elements such as big porches and forgo other key ingredients such as grid street systems and mixed land uses (Sohmer and Lang 2000).

For people building large master-planned communities, the same recommendation holds true. Doing urban development halfway may produce environments that please no one. It is more useful to work on dual tracks, where a section of the community is mixed-use and high density, while other parts feature lower density and single-use environments. It is also critical that urban development does not encroach on the conventional suburban areas in such developments.

An example of a large master-planned community that has successfully managed to develop both urban and suburban places within the same development is Reston, Virginia, just west of Washington, DC.<sup>3</sup> Most of Reston is comprised of single-family subdivisions that give no hint of being urban, but at the community's core is a densely built town center that includes offices, retail, and high-rise residential towers. Reston's planners cordoned the town center off from exclusively residential neighborhoods by surrounding it with a buffer of major arterial roads and townhouse development. The effect is that single-family home residents may live within a 15-minute walk of the town center but see no impact of its urban land use in their neighborhood.

<sup>3</sup> Reston was begun in the 1960s as development spread along the Dulles Airport Toll Road, which linked Washington, DC to its new international airport. Reston now contains over 50,000 residents and is nearly built out.

### Future Research

The Sirmans and Macpherson study was not intended to test a specific hypothesis but rather to generate useful house price information for realtors. However, future hedonic house price research could be designed to address the ideas raised in this article. What would be especially useful is hedonic modeling that comparatively samples the dual real estate markets described above. Based on the analysis presented here, it is predicted that two types of results would occur. "Urban," or more utilitarian home features would lift the value of city and neo-traditional properties and subtract from the prices of conventional lower-density suburban homes.

Finally, homes in other parts of the nation would need to be included in future research. It would be interesting to see if suburban houses in Southwestern metropolitan areas such as Los Angeles, Phoenix, and Las Vegas exhibit the same price effects as those in the Mid-Atlantic region. Given that these places have more densely built suburbs than the Mid-Atlantic area (Lang 2002), there may be less negative impact on home prices from more intense and utilitarian property characteristics than found in the East.

### Author

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