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A Resilient Suburbia? 1: Sunk Cost & Credit Markets

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Many argue that suburbia was a terrible idea—a giant waste of land, capital, and culture. I largely agree. But there you have it: suburbia happened, with no refund available. It is a sunk cost—not only the millions of homes, but the vast infrastructure for transportation, employment, governance, and distribution that is fundamentally intertwined with the suburban model. Looking into a future of energy scarcity and economic challenge, it is time for the discussion to shift from "suburbia sucks" to "what are we going to do about it?" Is it possible to build a vibrant, sustainable, and self-sufficient civilization on the framework of existing suburban development? More importantly, is there any viable alternative? This four-part series will take a critical look at suburbia in an environment of peak oil, beginning with this post's discussion of sunk costs and credit markets as they impact our options.

This series will consist of four separate posts: 1) this post, on sunk cost and credit, 2) a discussion of the suburbia's economic prospects and the challenges of commuting and economic production after peak oil, 3) the potential and limitations of producing food, water, and energy in suburbia, and 4) the impact of decentralization, self-sufficiency, and lessons from history as they inform our "solutions" to suburbia.

In this first post, I will develop the argument that sunk cost and the current credit crisis prevent the development of any meaningful alternative to suburbia. Specifically, suburbia presents a Catch-22 situation where the theoretical viability of an alternative effectively destroys our ability to either leave suburbia or build that alternative. This is a crucial foundation to this exploration of suburbia: because there is no alternative that is both theoretically viable *and* realistically

implementable, we must instead focus on adapting suburbia to a post-peak oil future.

For most readers, the threat posed to suburbia by peak oil and generalized resource scarcity is clear. I won't detail the exhaustive arguments in support of this proposition, but briefly: peak oil threatens our ability to commute *from* suburbia and transport supplies *to* suburbia; suburban civilization is dependent on cheap energy to heat, cool, light, and purify water supplies; suburban America represents too large a population for any viable, unified version of America to continue if it truly "fails" without a suitable alternative. We certainly can abandon suburbia, but we must recognize that doing so also abandons any hope of a peaceful and prosperous future.

Suburbia in light of its alternatives: I think that we can all agree that suburbia is imperfect, perhaps even fatally flawed. What I propose is that the task, going forward, is not to determine whether suburbia is "bad," but rather to evaluate our options informed by a realistic appraisal of the alternatives to suburbia. It's fine to say that suburbia is too dependent on long, oil-powered food supply lines. What is the alternative? Can it accommodate the massive population of suburbia, or is it just a partial or stop-gap solition? It's fine to say that suburban residents will soon be unable to commute to work, and that will render suburban living untenable. What is the alternative? In the initial phases of a debate, it is valuable to refine criticism, to point out flaws. We must now move past that. Most of us understand the flaws of suburbia, but we are now at the point where it is only productive to point out a flaw if we do so to argue why a specific, realistic, and implementable solution is preferable.

What are the alternatives? For my own purposes, I've divided the spectrum of choices into re-urbanization, re-ruralization, and clustering, but I'm interested to hear how others would categorize our choices. I will discuss each of these in a later post, but first it is necessary to outline the key hurdles facing any effort to shift to an alternative: the sunk cost of suburbia and the paucity of credit to finance such a shift. Building an alternative to suburbia will be a massively expensive endeavor--is it something we can actually afford?

Sunk cost is the economic concept that some costs, if they cannot be recovered once they have been incurred, have significant effects on our decision making. What is the sunk cost of Suburbia? Individual homes, for individual buyers, may not entirely represent "sunk cost" if they sell immediately, though the decline in prices over the past months does represent sunk cost. If everyone in suburbia wanted to leave, however, then the entire suburban project--tens of trillions of dollars--would represent a sunk cost.

In layman's terms, if you bought your house for $200,000 but can only sell it today for $50,000, then your sunk cost is $150,000. Even if you didn't have a mortgage, that would represent a significant disincentive to selling. If your mortgage is $185,000, and you have no savings to make up the difference, you are in an even more inflexible situation. However, from a societal standpoint, the sunk cost in suburbia is even greater than the sum of its home values. There is a tremendous amount of energy invested in these homes and in the infrastructure to support them. While suburbia may be highly energy-inefficient, at some point in the not too distant future (possibly today) it will no longer be possible to replicate that kind of *surplus* energy investment to create a sustainable alternative.

As the example above illustrates, declining housing values make suburbia more inelastic. As prices go down, people are less able to move out of suburbia to an alternative. To the extent that rising energy prices make suburban house values decrease, they also act to make it more difficult for suburbanites to move to more energy-efficient locations.

Similarly, as credit markets remain tight, it is increasingly difficult to both afford a move to a

more energy-efficient home. It is also increasingly difficult to finance the development of more energy-efficient projects (whether "new urbanism," condos, light-rail systems, or energy-retrofits of existing suburban homes).

There is a feedback-loop between declining house values and tight credit markets. Declining home values and increasing foreclosure rates (one result of declining home values) undermine the viability of mortgage-backed securities (and send shockwaves into the credit default swap markets). This makes credit tighter, decreasing the pool of people able to buy homes, which leads to further home value declines, ad infinitum. This is the core of our current financial crisis.

The even more critical problem, however, arises when that feedback-loop process interacts with peak oil. In an environment of unlimited cheap energy and resources, the above cycle can eventually be "solved" through some combination of market forces and government intervention. However, if we accept that peak oil presents a challenge to suburbia, a Catch-22 situation arises. To the extent that suburbia retains its value over the long-term, we can afford to build an alternative to it that addresses the energy challenges facing suburbia. But if suburbia does maintain its value, where's the motivation to do so? To the extent that energy challenges undermine the viability of suburbia, causing a desire to move to an alternative and a decline in the value of suburban homes, our ability to finance that alternative is destroyed.

That's exactly the catch: *to the extent that we need to end the suburban experiment, we aren't financially able to do so*. To the extent that early adopters "get out" soon and buy in to more sustainable alternatives, the vast majority who are left behind are increasingly stuck. For this reason, suburbia isn't going anywhere—at least not in my lifetime. This is not to say that suburbia won't undergo dramatic change. It will, but we're largely stuck with its basic fabric. The potential and great challenge of making something sustainable and life-affirming out of the fabric of suburbia will be the topic of the rest of this series.