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A Decade After the Housing Bust, the Exurbs Are Back

Home buyers, often millennials, are looking farther away for affordable housing, even if that means a long commute

By Laura Kusisto March 26, 2019 10:32 a.m. ET

MARICOPA, Ariz.—The exurbs, the engine of the American housing market, are back.

A decade ago, the sight of new homes under construction in Maricopa, an enclave of tidy cul-de-sacs 35 miles from downtown Phoenix, was almost unimaginable. Four in five homeowners were underwater, with their outstanding mortgages worth more than their properties, according to housing data tracker Zillow. Neighbors felt compelled to cut the hedges and clean up garbage at empty houses.

Last year, Maricopa issued permits for nearly 1,000 new homes. In the depths of the housing downturn, in 2010, it issued just 110.

Across the country, the [housing market overall has slowed](#). But in the regions just beyond the affluent suburbs, new home building and sales are showing signs of life. Rising mortgage rates and home prices, especially in urban centers, are once again motivating buyers to drive until they can afford a home, including in Dallas, Las Vegas, Atlanta and the San Francisco Bay Area. Low gas prices help as well.

Analysis by the National Association of Home Builders, set to be released later this year, shows that single-family construction rose nearly 7% in exurban areas in 2018 compared with a year earlier. Home building overall rose less than 3% in the same period. The group defines exurbs as outlying counties in major metropolitan areas.

These buyers, often millennials and retirees, purchased homes on average more than 16 miles from central business districts in 2018, the greatest distance since 2004, according to Fannie Mae loan data.

Buyers are “having to drive further from the city center in order to be able to afford a house,” said Doug Duncan, chief economist at Fannie Mae.

The exurbs have historically blossomed late in the housing cycle, when more established areas closer in are already saturated with new homes and buyers have become financially stretched.

These fringe areas saw a similar rise more than a decade ago during the last housing boom, when easy access to mortgages and speculative home buying pushed builders to remote pockets of ample and inexpensive land.



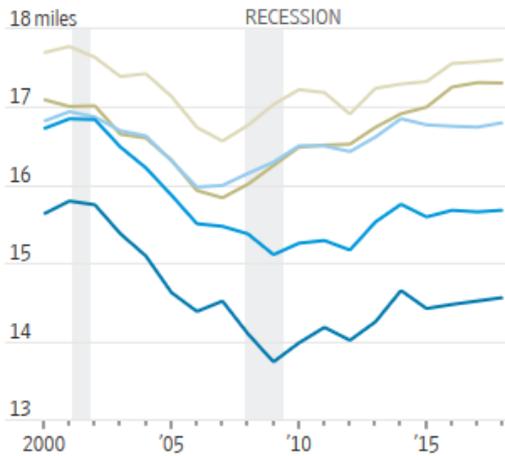
Michael Varney was drawn to Maricopa by the low housing prices. Photo: CONOR RALPH for The Wall Street Journal

On the Move

Home buyers of all ages are moving farther away from downtown areas.

Average distance to central business district, by age

■ 29 years old or younger ■ 30-39
■ 40-49 ■ 50-59 ■ 60-69



Source: Fannie Mae

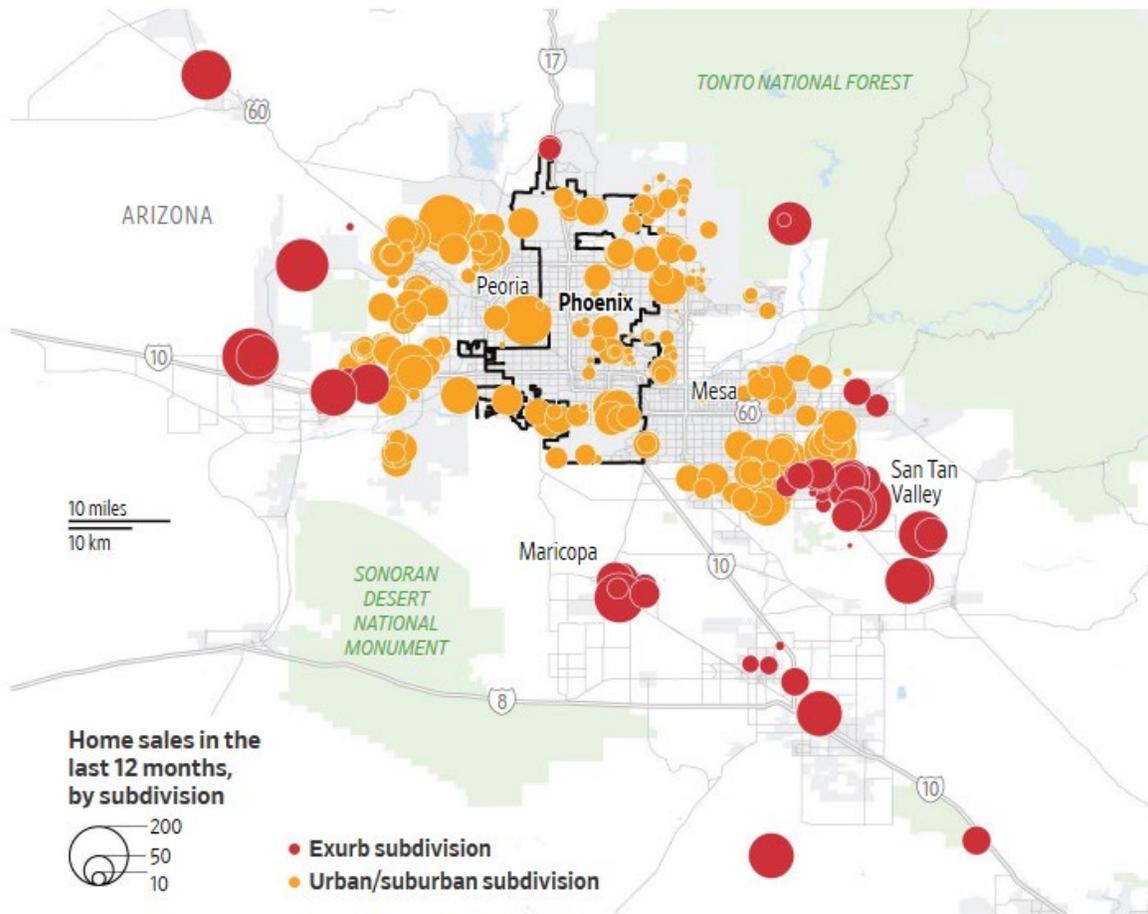
When the bubble burst, home values plummeted, as did the economy. Ordinary home buyers retreated to more central locations, where homes were once again affordable. Many builders lost millions of dollars or went bankrupt, and for years they largely abandoned the areas.

Builders hope they can avoid a repeat. Regulators and banks have [tightened lending standards](#) to help ensure that demand in these areas isn't being fueled by speculative investors or lower-income buyers who can't afford the homes. In exurbs such as Maricopa, officials are trying to diversify their economies so they are less dependent on commuters.

In recent years, millennials have driven demand for rental apartments in downtown areas. Some in the industry thought this could be a permanent phenomenon. And yet, as they begin to marry and have children, millennials are proving like generations before them that they are willing to move to more affordable outlying areas.

Far Out

Exurb communities, generally several miles from any significant population center and with limited services, are growing across the country, including around Phoenix.



Note: Excludes subdivisions that have not been active for an entire 12 months and subdivisions that have sold out.

Source: Belfiore Real Estate Consulting

Josh Bush and Danielle Rhee were drawn to Maricopa from Portland, Ore., for the housing prices. They bought a \$250,000 six-bedroom home there last year—less than it would have cost them to get two bedrooms in Oregon, said Mr. Bush, who is 29 years old.

Mr. Bush, who designs fire sprinkler systems, leaves for his job in Phoenix before 6 a.m. each morning to keep his commute to about 50 minutes. The drive can take two hours if he hits traffic. He considers the trade-off worthwhile. “If you move into town, you’re going to spend your entire salary paying for a house,” he said.

Homes in the Phoenix metropolitan area, including the suburbs, lost 55% of their value from the peak in 2006 to 2011, according to Zillow. Today Phoenix is experiencing some of the fastest home-price growth in the country. Home values are now just over 6% below their pre-crisis 2006 peak.

The housing bust erased nearly 65% of the value of homes in Maricopa over the same period, according to Zillow. Home values there remain more than 22% below their 2006 high.

At a recent gathering of home-building executives at the upscale Arizona Biltmore, consultant Jim Belfiore urged industry executives not to be afraid of the exurbs. Many still have fresh memories of having dozens of empty exurban homes they couldn't sell a decade ago. Some competitors were forced to go bankrupt.

According to Mr. Belfiore's data, the number of exurban communities under construction in the Phoenix metropolitan area grew to 121 in 2018, up 19% from 2017. That bucked a slowdown in the market, where the overall number of communities under construction declined about 2%.

Compared with the last boom, builders and lenders say new communities aren't reliant on subprime mortgages and speculative investment. Buyers are more often using loans backed by the Federal Housing Administration that require only a 3.5% down payment and a minimum credit score of 580, or Department of Veterans Affairs or U.S. Department of Agriculture loans that require no down payment.

Jordan Rose, an attorney who represents many developers and home builders in the area, said during the last boom, she used to work in her car using a portable modem because she didn't have time to make it back to the office between zoning meetings.

She is even busier now. "It feels like 2006 without the fake high at the end of the rainbow," she said. "There's the same exuberance, but the buyer is real."

Still, buyers may retreat if growth in the housing market continues to soften and prices fall for homes closer to the city, or if gas prices rise. Builders are also putting up more speculative homes—meaning finished homes without buyers—which could leave them hanging if demand dries up. Given the boom-and-bust nature of the far-flung areas, builders are unlikely to avoid pain altogether if home prices fall.

Boom and Bust

New home construction has partially recovered, after falling in the mid-2000s...

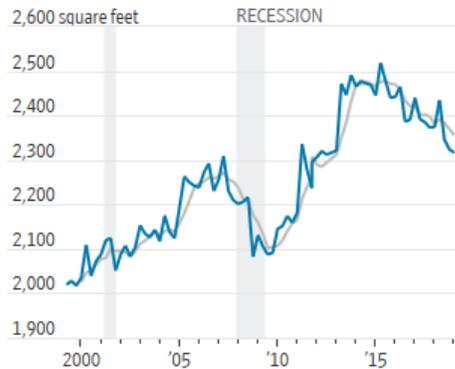
Total monthly privately owned housing



...and a decline in square footage shows a move toward more starter homes.

Median size of new homes**

- Median floor area
- One-year moving average



*Seasonally adjusted annual rate

**Not seasonally adjusted

Sources: Federal Reserve Bank of St. Louis (starts);
U.S. Census Bureau and National Association of
Home Builders calculations (floor area)

A couple of years ago, Scottsdale, Ariz.-based builder Meritage Homes Corp., bet that exurban starter homes would make a comeback. For three decades, the firm had primarily focused on more expensive homes in the suburbs for families, but Chief Executive Steven Hilton became convinced supply was outstripping demand.

Of the 9,000 lots Meritage acquired last year, 85% of them were for entry-level homes. The builder's entry-level homes are selling about 50% faster than more expensive homes.

"You can stand on principle and say, 'I'm not going to these farther-out suburbs.' Well, good luck," Mr. Hilton said.

Meritage worked to pare down features on the homes to push down costs without alienating millennial customers who had grown used to renting new apartments with on-site gyms, swimming pools and pet spas.

Granite countertops and cabinets with crown molding convinced Sandra Monz, a 51-year-old single teacher, to buy a 1,600-square-foot home in Buckeye for \$232,000 about 20 miles away from Phoenix. The house is 15 minutes farther away from the city than her previous home, but homes with similar features were out of reach closer to downtown.

Services are slowly starting to fill in, she said, such as a [Starbucks](#) on the corner and a veterinary office. Still, her children give her a hard time. "They're like, 'Oh my God, you're so far, mom,'" she said.

More than an hour's drive away from downtown Phoenix, in the San Tan Valley, other home builders are offering basic starter homes starting around \$150,000.

The sales center, in a modest stucco bungalow just off a cactus-lined highway, had a steady stream of visitors on a Wednesday afternoon. Many people in the area are employed in the local prisons.

A salesman at a [D.R. Horton](#) community in the Magma Ranch subdivision sold two homes that afternoon. One recently divorced prison guard who lives in the community was looking for a larger home to move in with her boyfriend. She was shocked to find prices had already risen since she moved in about a year ago—by about \$10,000.

Officials in exurbs such as Maricopa, with a population of about 50,000, are working to broaden their economic base so they aren't dependent solely on commuters, hoping to prevent an exodus if prices in closer-in suburbs drop again, said Christian Price, Maricopa's 43-year-old mayor.

Nearly 80% of residents work outside Maricopa and commute on average more than 16 miles, according to a survey commissioned by the city.

Maricopa held an event last fall pegged to small-business Saturday, where it invited owners of the community's 800 home-based businesses to showcase their wares. A 280-acre luxury car club, with a 4-mile racetrack and initiation fees of \$22,000 to \$130,000, is set to open later this month.



'Nobody thought we'd still be here,' says Maricopa Mayor Christian Price. Photo: CONOR RALPH for The Wall Street Journal

When the city's future was still precarious, residents voted to issue a bond to pay for a new community center. That helped attract Nathan Ullyot, who got a job as the community services director for the city last May.

Mr. Ullyot, who is 37 years old with three young children, is waiting for the new home they are building in Maricopa to be finished. "I want to raise my kids in a community that's growing," he said.

Michael Varney, a 70-year-old retiree who is recently divorced, said he ended up in Maricopa by chance. "I started looking for a smallish, empty-nester home," he said.

When he walks his two dogs, he finds himself surrounded by a mix of other retirees, young families and Canadian snowbirds. "It's just far enough from Phoenix that it has a nice price-point drop-off," he said. "That's a darn good recipe for a future."

The mayor said he still finds solace in the city's remoteness. Maricopa can feel like living on an island, he said.

"Nobody thought we'd still be here," he said. "It was do or die."

https://www.wsj.com/articles/a-decade-after-the-housing-bust-the-exurbs-are-back-11553610771?mod=hp_lead_pos5