



Mortgage crisis freezes civic projects

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Large housing projects were all the rage three years ago, but the mortgage crisis has left towns across the country littered with half-built developments. Ashley Gross reports.

Kai Ryssdal: If high oil and gas prices aren't enough to get you down, don't worry; there's always housing.

May construction numbers will be out tomorrow. We'll get early guesses for this month, too, neither one of which is expected to do much for investors' moods.

Officials at cities all over the country will be paying close attention. They're being squeezed as falling property values crimp tax revenues. Lack of income has stalled infrastructure projects and in some cases, it's killed entire communities before they're even built.

From Chicago Public Radio, Ashley Gross reports.

Ashley Gross: Justin VanVooren is showing me a dusty field in a village called Sugar Grove, about 45 miles west of Chicago.

Gross: So we're standing on corn husks here. What have you been hoping for this area to be?



A construction worker builds a new home in San Ramon, Calif. (David Paul Morris/Getty Images)

Justin VanVooren: The intent is to have a new downtown in this area, stores close to the street...

VanVooren is Sugar Grove's finance director. His village hoped this site would become a suburban shopping mecca with department stores, a movie theater, even a hotel and conference center. It would have been a big deal for a town with not much more than a supermarket.

Instead, the site is still just a dried-up cornfield. The developer pulled out last year.

VanVooren: They needed so many housing starts per year to really make the project go and with the downturn in the housing market, we just have not seen that.

And that's a big change for Sugar Grove and its 9,000 residents. The village more than doubled in size over the last eight years as Chicagoans moved to the suburbs. But

about two years ago, that growth ground to a halt.

Mike Cohoon: We don't have a town, but we have a house, so can't complain, right?

Mike Cohoon is shoveling dirt for a fence he's building around his house in this new residential community in Sugar Grove. The development was supposed to have 2,500 homes built around its own town square, but after two years, only about 130 homes have been built. The developer, Kimball Hill, filed for bankruptcy in April.

Cohoon: You have major builders that are completely gone off the map right now that three years ago, they were rocking and rolling with building houses, turning houses as fast as they can.

Sugar Grove was counting on fees from those new homes to pay for a new police station and village hall. Those projects are now postponed indefinitely.

And Sugar Grove has lots of company. A recent National League of Cities poll found that revenue in one-third of cities is declining due to the housing slump.

The league's research director, Chris Hoene, says that's likely to worsen as property values are reassessed downward.

Chris Hoene: The state and local sector, which is a pretty sizeable sector in the

economy, is about to be the next piece of bad news most likely in terms of what's happening nationally.

But like other cities around the country, Sugar Grove's wounds may be self-inflicted.

Steve Hovany: It's sort of the poster child for excess.

That's Steve Hovany, who analyzes the Chicago housing market. He says Sugar Grove sabotaged itself by setting impact fees too high. Developers have to pay those fees to fund everything from water mains to the new police station. They then pass the costs on to homebuyers.

Hovany: The idea from the builders was "Build it and they will come" and for the communities "Why not ask for it if we can get it?" And it all worked wonderful in this hyperventilation of 2005. It makes no sense in 2008.

Hovany says Sugar Grove's impact fees pushed home prices higher than in neighboring towns. At about \$32,000 a house, the village's impact fees are three times the national average. That scared buyers away.

Sugar Grove's finance director Justin VanVooren says the village did recently reduce its impact fees.

VanVooren: I think all of us are a little bit smarter for it, for having gone through this housing downturn after being on such a high for so long. I

think we've all learned a lot from it.

Gross: What do you think you've learned?

VanVooren: Be extremely conservative.

It's a lesson lots of towns across the country are now learning the hard way.

In Sugar Grove, Illinois, I'm Ashley Gross for Marketplace.