

## Effect of Gas Prices on Real Estate Values



**By Brian Madigan**

What is that going to mean for real estate?

The price of gas just went up to \$1.05 per litre. Is that too much? Informed sources (according to the newspapers) say that the price will reach about

**\$1.45 by the summer.**

What is that going to mean for real estate?

In the very short term, probably nothing. It's just a small inconvenience. Longer term, it will definitely have an impact.

The question however is where? The most vulnerable segment of the market is recreational properties within reasonable commuting distance of major urban areas. Basically, that means downtown Toronto. The time limit for travel seems to be about 3 hours. Beyond that, most people are prepared to reconsider the issue of ownership. Sure, they'll visit friends on a long weekend, but they won't buy themselves.

The recreational market is vulnerable since it is a luxury, and in bad times, that's the first thing to go.

Let's assume that gas prices are still within reach of the average consumer. At the moment, that will take us up to about \$1.25/litre. Beyond that, consumers will balk, and defer driving to distant locations. Work comes first, and there's not a lot of money leftover.

The next issue is availability. If there are substantial shortages, it is going to be difficult to get people to line up for an hour or so before they embark on their 3 hour journey. And, once they are on the highway they'll all be going at the limit of 100 km/hour or less. It will simply be too expensive, and use up far too much gas to travel any faster. This will add another 30 minutes to 45 minutes to the 3 hour trip. Now, we are pushing close to 5 hours from the time you left your house.

However, we didn't talk about traffic congestion. If we simply have the same number of cars heading out of the City at about the same time, we are going to add to the congestion. The reason is that on a Friday afternoon, many people leave at about 3 o'clock in the afternoon. That really won't get any earlier. They still have to get their work done. It will simply mean that fewer people will be able to "get away early", basically adding to the already overloaded streets and highways.

Then, the PROBLEM: that past weekend wasn't fun! Five hours to get to the cottage battling traffic with everyone going 85 km/hr, and 5 hours back on Sunday. But the saving grace on Sunday was that you left first thing on Sunday morning to avoid the rush.

So, now the question: is it worthwhile to own a cottage or should you just visit some friends?

The more people who say "No" to that question, the worse it becomes for the recreational property market which depends so much upon:

- Cheap gas
- 3 hour commutes
- moderate traffic

If that changes, so will the market! And, that will be good for some, and not so good for others.

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