

Planning for Hard Times

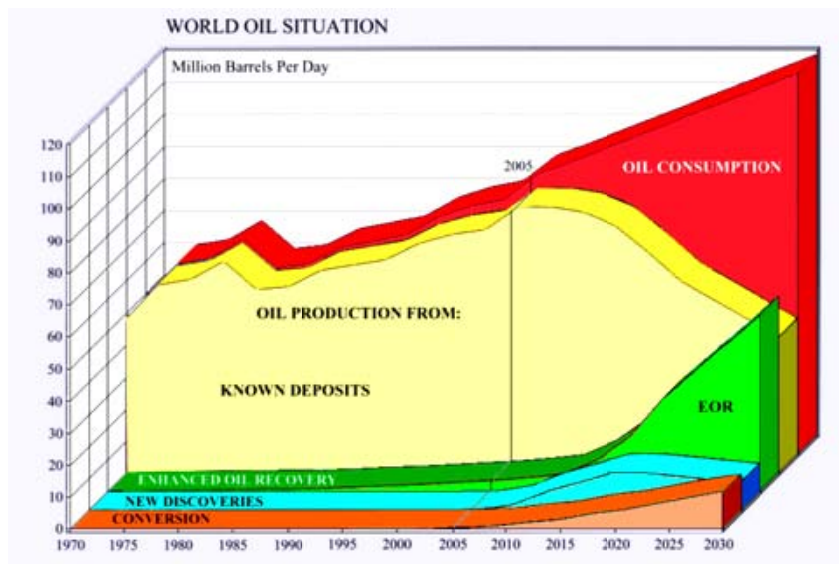
The Real Estate Implications for Post-Peak Oil Living

Global Warming and Peak Oil

A conscious decision must be made as to the level of priority to be given to energy conservation measures in your new home. No one else is going to be making that decision. Your future is in your hands.

If the vast majority of climate scientists are to be believed, we are facing difficult times. Occupants and managers of the contemplated building will in all likelihood experience the physical as well as economic impact. Buildings that assume heavy reliance on carbon-based energy will continue to be a significant part of the problem. New buildings that are will only marginally greener or not easily adaptable to new technologies will be a mistake.

Parallel to global warming, global oil production is at or near its maximum sustainable output and will soon begin an irreversible decline. We have discovered and have extracted most of the easy oil. What is left is at the bottom of the ocean, in tar sands, or in the arctic, and it is all expensive. The emerging consensus is that we shall reach the peak of production in less than 10 years. Some believe it has already happened.



On July 17th, the lead story in The Financial Times was the latest report from the International Energy Agency. The IEA as saying: “Oil looks extremely tight in five years’ time,” and that there are “prospects of even tighter natural gas markets at the turn of the decade”.

This view on natural gas is shared by David Hughes of the Canadian Geological Survey, who believes **we have about 7 years before shortages become evident**. While Canada has an abundant supply of natural gas, it is through NAFTA a commodity that cannot be held back to meet our own needs. Peak production of natural gas in North America occurred in 2002.

The steep rise in the oil price over a four-year period has been caused by demand rising at more than 2 per cent a year, while supplies had risen more slowly, by a 4.1 per cent in 2004 (a sustainable rate), but by only 1.25 per cent in 2005 and 0.5 per cent in 2006.

In 2003 a barrel of crude sold for \$29; in 2004 it rose to \$38; in 2005 it rose to \$54.50; in 2006 it rose to \$65. Prices are now around \$75. “Jeffrey Currie, a London-based commodity analyst at Goldman Sachs,

says \$95 crude is possible this year unless OPEC unexpectedly increases production, and declining inventories are raising the chances for \$100 oil. Jeff Rubin at CIBC World Markets predicts \$100 a barrel as soon as next year.” (Bloomberg, July 21)

Is all of this a short-term blip on a healthy market or is it the early signs of a continuing shortfall in production? The expectation is that prices will fluctuate, giving hope to the optimist, but whatever the case, there is a huge growth in demand for oil by developing nations. China has just passed the U.S. as the world’s top CO2 emitter. This, and knowing that alternative energy sources are not nearly as useful as oil, is of great concern.

We, like the Europeans, may get used to very high prices at the pump, such is our addiction, but the cumulative strain on the economy will have an effect. A difficult and bumpy future involves, at the very least, much higher oil and gas prices and, more ominously, unreliable availability, supply and demand being what it is.

What does this mean to you?

- We are in for economic hard times. Energy rationing along with increasing damage caused by global warming will force an end to the way we have consumed our resources. We will be compelled to make do with less.
- Planning for the worst and working toward the best should be your home buying or selling strategy.
- Be wary of hoping for a magical new technology to appear and solve the problem. The laws of physics seem pretty firm.
- Plan on not having natural gas to heat your home. Within 10 years the supply will not be reliable.
- We have a culture of being a consumer society. We are all heavily influenced by our history of addiction to ‘things’. Having a new attitude in your real estate decisions is difficult, especially given the countless programs on television showing us the latest home decorating, flipping, staging, and renovations, which together raise our expectations of what we **deserve** in our life.

The danger here is thinking that planning for a difficult future is survivalist nonsense. Apart from a few back page stories, the main stream media has not focused on this yet. A Google search of “peak oil” will demonstrate that a considerable discussion is starting to take place.

Sadly the nonsense is believing we can indefinitely continue consuming the planet in the same way as we have in the past. Here are some implications:

1. Suburban McMansions will not be sustainable

- Typical suburban houses are much larger than we need, and much larger than owned by our parents and grandparents.
- Heating this excess space will become untenable for many, especially given their poor design that is based on cheap oil.
- Suburban areas which require a car for shopping and work will suffer the worst decline in property values

- **Solution:**
 - Buy a smaller house, ensure it is well designed for energy conservation, and locate within walking distance to shopping, work, and services.
 - If you live in a McMansion now, sell. The value 10 years from now will be substantially less in comparison to a well located energy efficient house.

2. For Small Home Owners

- It may have been an economic necessity, a commitment to sensible living, or foresight, but what ever the case, you made the right choice.
- You are still in trouble if you are in a poor suburban location needing a car for necessities; have a drafty, under insulated building; or have a heating system that will not serve you well in the new reality.
- **Solution:**
 - Forget the new kitchen or even the new windows (caulk is a much better investment). Insulate and go solar.
 - Insulate now.

3. For New Home Buyers

- The best buy is a custom built new home in an urban location. The worst buy is a poorly located tract home with its top soil scrapped away.
- In the near future homes will have an “Energy Star” rating. When energy prices quadruple, the energy efficiency of your home will be a major contributor to its resale value.
- Be wary of so-called “green homes”. Buzz words can confuse, so get advice, and your builder is not the best source.
- **Solution:**
 - Invest in the most efficient design you can afford. You can afford to do this by reducing the size of your home. Your granite counter is not going to keep you warm. Insist on solar panels, at least for a boost for your hot water tank. Insist on a good southern roof exposure for photovoltaic panels, which are close to being economically viable.
 - Insist on extra insulation and have a third party inspect the home before drywall is applied.
 - If you have access to wood, forget the gas fireplace, install an efficient wood stove or fireplace insert.

4. Edible landscaping

- This sounds absurd now, but our grandparents had victory gardens during WWII. Oil was in short supply then, and there was rationing. A decent sized garden will be valuable.
- Cheap oil allows for winter strawberries from California, bananas from Central America, milk from New Zealand! That will no longer be possible when transportation costs skyrocket.
- **Solution:**
 - Have enough land or access to land to grow a substantial portion of your own food. Lawns are a waste of good land. They consume energy and rely on pesticides to do well.

5. Be as Debt Free as Possible

- Most people can barely manage their debt, including their mortgage. With an oil based economy in decline and new energy sources not ready to step in, the economy will suffer serious decline. Property values will decline, especially where homes are poorly designed or located. With **all property** losing value, being debt free means being better able to keep your house. Those mortgaged to the hilt will lose their homes.

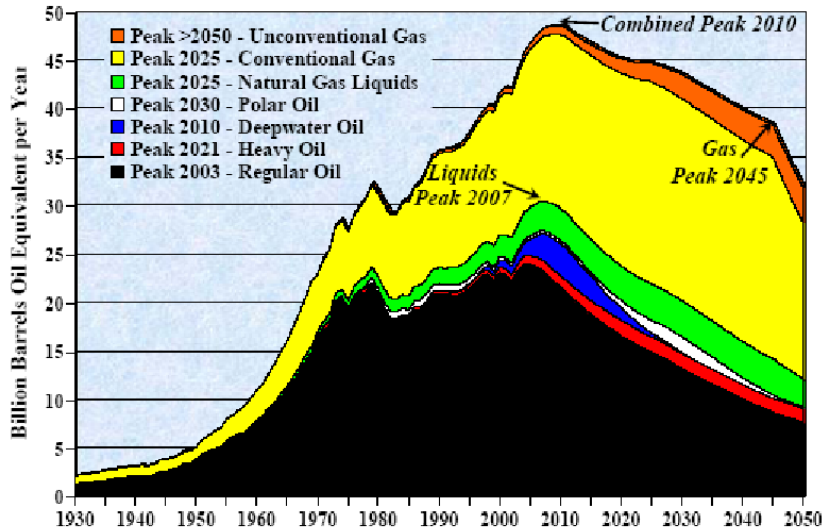
- **Solutions:**
 - Now is a good time to pay down debt to the bare minimum. If you don't have the money, I don't spend it.
 - If debt is necessary be in debt for those things that will have value during the economic hard times.

6. Summary

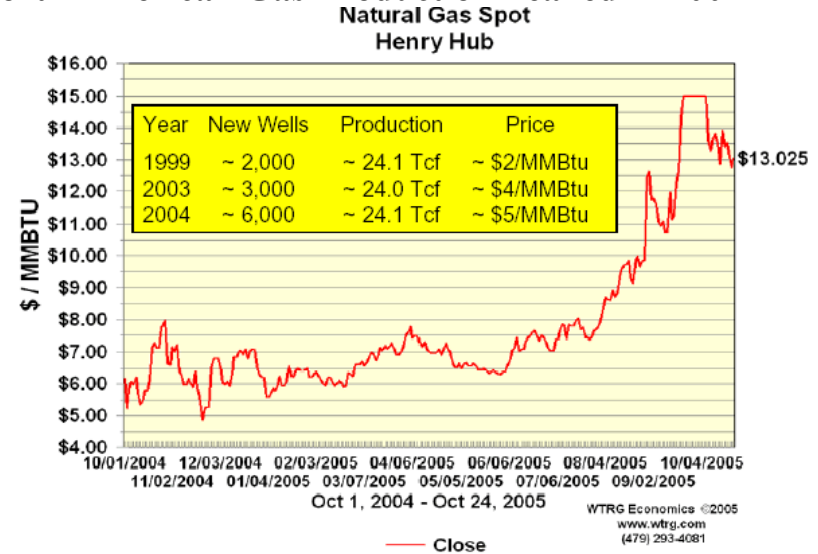
Decisions made now will have a significant impact on how well one will be able to live in the future. The advice with the most impact will be being debt free. That is not always possible, so if you are going into debt buy that which will add value in the long run. **In the near future, value will be defined by what is sustainable, not that which is consumable.**

Peak Energy Projections

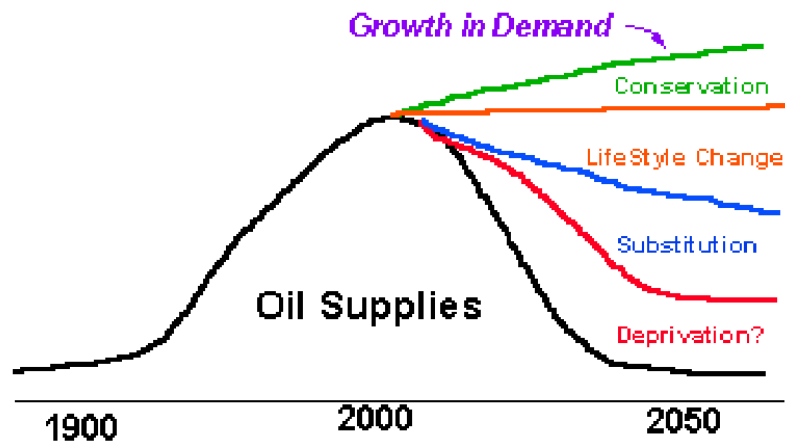
Peak Energy by Type (World Wide)



North American Gas Production Peaked in 2001



A Lack of Change Will Have Consequences



What???

“By some estimates there will be an average of two percent growth in global oil demand over the years along with conservatively a three percent decline in production from existing reserves. That means that by 2010 we will need on the order of an additional 50 million barrels a day.... So where is the oil going to come from?”

Dick Cheney
Haliburton 1999