

#9 FOR IMMEDIATE RELEASE: November 8, 2007

High fossil-fuel prices will impact country real estate

By Curtis Seltzer

BLUE GRASS, Va.—What would you do if the price of gasoline—now at more than \$3 per gallon—were to rise to \$10? Or more? Gripe, that's for sure. Blame somebody. Some of us would march to Washington—on foot, of course--demanding lower prices, threatening legislators with bone-dry dipsticks as we clutch dead sparkplugs in our cold hands. And a few of us would start running our cars on old French-fry oil or the collected fumes of Willie Nelson's organic cigars.

Whether it's \$5 or \$10, gasoline prices will rise over time. Petroleum reserves are finite, and the world may be at or near the point of peak production. We will pump less oil in the future, and new supplies are more expensive to extract. Global output grew by less than one half of one percent in 2006. While supply is weakening, global demand continues to rise. The risks and question marks about oil-producing countries are now tacking on more than \$30 to every barrel of \$100 oil. The International Energy Agency recently forecast oil demand growing at 2.2 percent annually and supply at 1 percent during the next five years—and that's the optimistic scenario. You won't need a crystal ball to watch gasoline prices go up; you'll need binoculars.

High-priced gasoline will lead most of us to adapt our lives to using less of it. There are two ways to conserve energy: scrimping and changing. Each of us can pinch something out of our energy budgets. We can travel less, drive slower and use public transportation. All good things. But if our population continues to grow and we remain dependent on petroleum-fueled cars, scrimping our way to a future based on less oil consumption only goes so far. America uses more petroleum today than in the 1970s, even though we use it far more efficiently. (See <http://www.eia.doe.gov/emeu/25opec/anniversary.html>; <http://www.eia.doe.gov/emeu/steo/pub/contents.html>.)

To make the most of coming high oil prices, we will have to use the time of high-price pain to change our energy-production and energy-consumption capital stock-- from the way we make electricity to the cars we drive. We would need where possible to substitute electricity for petroleum, dedicating it and natural gas to their highest and best uses. This shift will happen sooner or later because fossil fuels are gangplank resources: they only go out so far. Economically recoverable Appalachian coal resources, for example, are projected to last only for another 15 years at current production rates, according to the U.S. Geological Survey. Less coal available to mine means less coal will be mined.

High prices will stretch the gangplanks by opening resources that are

currently uneconomical, but that simply postpones the inevitable fade of fossil fuels.

High prices for fossil fuels and concerns over their greenhouse gases are likely to shift our economy to one based principally on electricity coming from nuclear power and renewables. The Congressional Research Service reported in March, 2007 that 34 nuclear plant applications are in the works. Nuclear power now generates about 20 percent of our electricity at 65 plants in 31 states. (Go to <http://fas.org/sgp/crs/misc/RL33442.pdf>.)

In between now and then, America's countryside will see more drilling for oil and gas, more mining for coal and uranium, more corn farming for ethanol, more bio-mass plantations, more wind farms, more use of water in energy production (for coal-to-liquid technologies; ethanol), more power plants, more power lines, more processing facilities, more waste-disposal sites and more...spats.

Thirty years ago, the term, "national sacrifice area," appeared when the idea of "energy independence" became a national goal. Some places would be roughed up—maybe permanently--in the process of extracting their resources. The coalfields of Appalachia and the Rocky Mountain West were in the bullseye, along with new oil-and-gas patches. Sites for big new mines, power plants and processing facilities in small towns, like Gillette, Wyoming, had boom-town woes. Out-of-the-way places, like mountain-top removal surface mines in West Virginia, became battlefields over environmental impacts.

Today, 45 new coal-fired power plants are going forward, and 76 more have been announced. (www.netl.doe.gov/coal/refshelf/ncp.pdf.) Energy independence won't mean cheaper energy. Alternatives to oil-based fuels have generally been more expensive than the oil they replace. If plain old oil produces \$4 per gallon gasoline and a coal-based synthetic gasoline comes in at \$3.50, the cheering for independence will be funereal.

To the extent we back out imported fossil fuels, the price of our own remaining fossil fuels will rise because demand will still be strong in the transition.

And if independence means higher energy prices, political pressure will mount to lower production costs by requiring less protection of energy-producing environments in rural America. This means that the value of energy-spared country property will rise, and areas on the frontlines of energy production, consumption and transportation will see their property values stagnate, if not weaken. Non-local buyers will avoid country markets that are burdened with energy-related noise, dust, traffic, air and water pollution, hazards, waste dumps, risks and controversies. Activities that lower a community's rural aesthetics—nice scenery, peace and quiet—will reduce demand for its real estate.

Outside of the energy boomtowns, rural property in the sacrifice areas will appreciate slowly, if at all.

Where environmental protection is significantly weakened in the name of energy independence, our energy-sacrifice areas will become zones of repugnance for retirees and second-home buyers—the pocketbooks that now drive up land prices in many places. But good buys will be found in these no-man lands for hunters, off-road-vehicle users and timber investors. Location is the fourth rule of buying country property; the first three, of course, are research, research and research.

If you're looking to buy a place in the country, it's worth researching how it might be affected by oil at \$200 a barrel and energy independence.

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