To merge with previous paragraph, use " {\_%- "

To merge with next paragraph, use " -%\_}

So :

My house is located

{%- if living\_in\_town -%}

in urban area

{%- else -%}

in countryside

{%- endif -%}

and I love it.

Should look like :

My house is located {% if living\_in\_town %} in urban area {% else %} in countryside {% endif %} and I love it.