



Spatial Economics Research Centre

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House Prices: Local Booms and Busts

The most recent American Economic Review has a set of interesting papers on 'Very Local House Price Dynamics'. It's surprising how little we know about what happens *within* cities as house prices boom and bust. As usual, one of the biggest barriers is absence of data. Now, new detailed data sets are allowing researchers to make progress in considering these issues. It's also possible that the fairly long duration of the boom had simply pushed the issue lower down people's radar in terms of an interesting research question.

But interesting it certainly is. For today, I'd particularly highlight work by [Veronica Guerrieri](#), [Daniel Hartley](#) and [Erik Hurst](#) that looks at within city variation in urban decline in Detroit[1]. They show, unsurprisingly, that 'the declines in population and income were not experienced uniformly across the census tracts within Detroit.' More surprising, however, is the fact that 'the poorest census tracts experienced the largest declines in population while it was the rich census tracts that experienced the largest declines in income. In particular, it was the relatively rich neighborhoods that were in close proximity to the richest neighborhoods that experienced the biggest income declines.' What this suggests is that population decline drives the remaining rich to greater concentration, while the poor move in to the neighbourhoods that they leave behind. The first effect tends to stabilise the population in the richest neighbourhood, while the latter effect drives both the larger decrease in population in poor areas and the larger fall in average incomes in relatively rich neighbourhoods (a kind of reverse gentrification).

In some ways, perhaps this seems obvious. But many people when talking about declining cities have a tendency to suggest that the markets simply collapse and that concepts like 'sorting' (of different income groups driven by market forces) are therefore no longer useful for thinking about urban structure (these cities are in 'disequilibrium'). In contrast this paper suggests that those forces continue to operate even in a city like Detroit which has seen massive declines in population.

[1: Open access version from Feb 2012 [here](#)]

Posted by [Prof Henry G. Overman](#) on [Tuesday, May 22, 2012](#)

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