

HOUSING ECONOMICS: A BEHAVIOURAL ECONOMICS RESEARCH AGENDA

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What is Housing Economics?

- Sub-discipline or field of applied economics
- As a complex commodity it provides inherent challenges for the economics researcher
- Predominantly a microeconomics field, its importance as a sector of the economy and its integration to finance and aggregate consumption have meant since the 1980s that it has become part of macroeconomic consideration, too
- Largely a problem-focused sub-discipline:
 - how do we reveal and understand complex processes?
 - how to analyse housing problems and propose efficient and fair responses?
 - can different economic approaches help?

Durability

Heterogeneity

Pervasive
State
Intervention

Spatial Fixity

Joint Good

Micro Topics

- Demand and supply elasticities
- Price studies
- Industrial organisation
- Market studies including segmentation
- Housing search and other individual choice problems e.g. mobility decisions, mortgage choice, tenure choice
- Analysis of interventions: supply-side v demand side; public housing; land planning systems; non-profits; taxation
- Cross sector studies: labour markets; social security; land markets; local economies
- Further complexity: neighbourhood effects

Macro

- Traditional focus
- 1980s boom and bust and financial deregulation attracted mainstream interest and use of co-integration techniques, etc.
- Two-way relationship between housing and economy
- Equity withdrawal, housing prices, borrowing, debt and consumption all locked together in a pro-cyclical fashion
- Controversies continue
- The role of housing in the GFC, recession and its aftermath
- Economic inequality, Picketty and housing wealth
- Housing and taxation is also a macro issue

An Overview of Previous Behavioural Research in Housing Economics

- Critique of neo-classical housing economics
- The house purchase process and housing choice
- The mortgage choice and policy reform (Shiller)
- Loss aversion and house prices (Genovese and Mayer, QJE, 2001)
- Endowment effects and other biases e.g. anchoring
- Flood risk and discounting the future (Pryce)
- Wealth portfolio behaviour (Quigley) – mental accounting

My Own Interests

- Housing choice behaviour in market and non-market settings
- Industrial organisation and non-profits (social housing providers)
- Equity withdrawal and consumption behaviour
- Housing market frenzy effects
- Effective housing policy reform

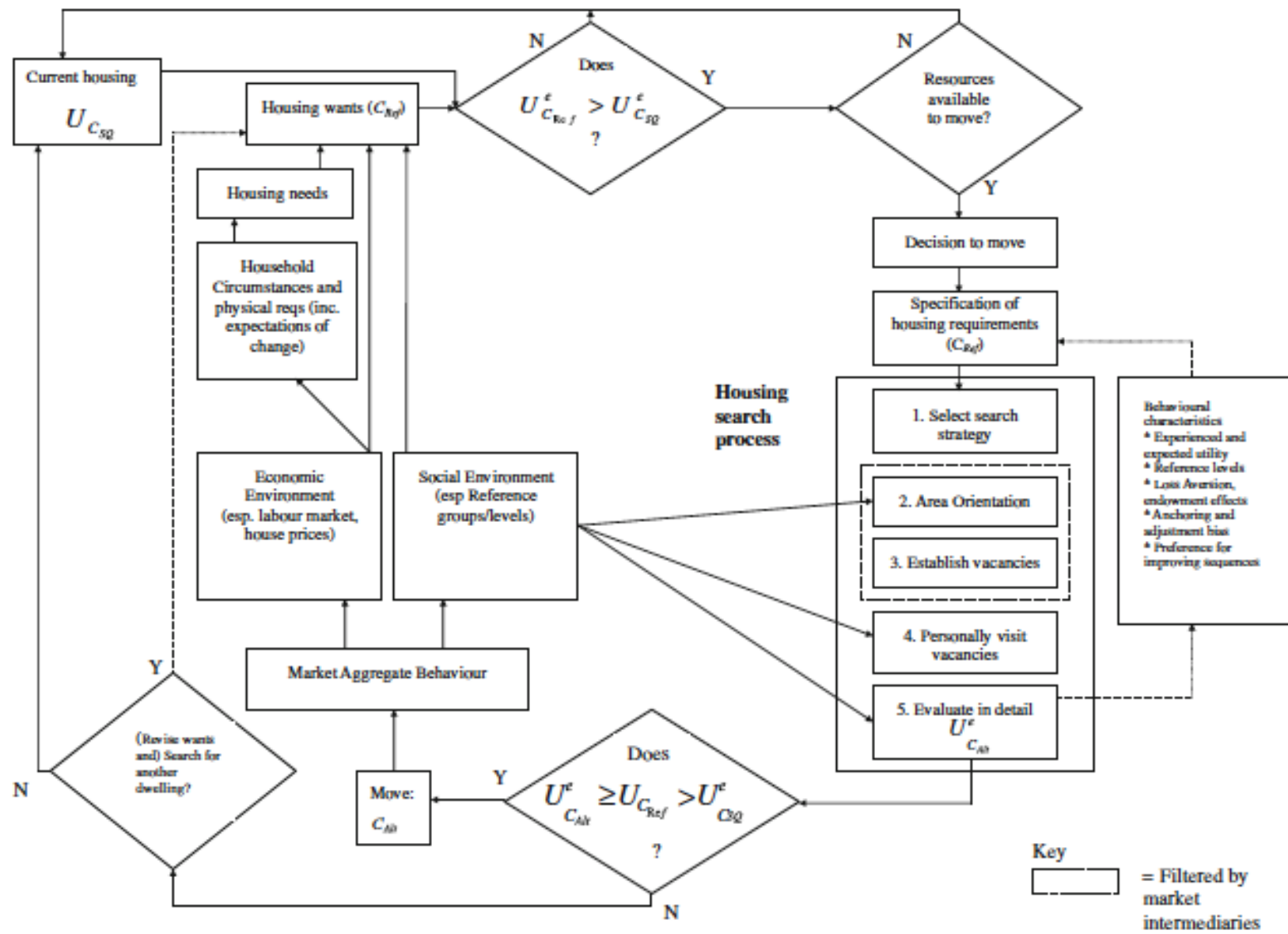


Figure 1. Housing market mobility, search and choice decisions.

A Research Agenda

- Individual housing/mortgage choices, biases and their implications
- Loss aversion and market behaviour
- Expectations, bubbles and herds
- Building out the Marsh and Gibb framework
- Mental accounting, individual consumption and housing wealth decisions
- Applying 'scarcity' thinking to non-profits (Mullainathan & Shafir)
- Interdisciplinary and related methodological issues
- Questions of technique and approach

Selected Reading

- Marsh, A and Gibb, K (2011) 'Uncertainty, Expectations and Behavioural Aspects of Housing Market Choices', *Housing Theory and Society*, Vol. 28, pp. 215-35.
- Marsh, A and Gibb, K (2011) 'Introduction', in Marsh, A and Gibb, K (editors) (2011) *Reader in Housing Economics* (5 Volumes), Sage: London
- Gibb, K (2012) 'behavioural economics and housing' in Smith S, Elsinga, M, Fox O'Mahony, L, Eng, S O, Wachter, S (editors), *Encyclopaedia of Housing and Home*. Elsevier Science: Oxford.
- Whittle, R, Davies, T , Gobey, M and Simister, J (2014) Behavioural Economics and House Prices: A Literature Review. Manchester Metropolitan University: Macrothink Institute Business and Management Horizons Vol.2 (2).
- All available on request from KG