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**REAL ESTATE MARKET:  
AN URBAN PERSPECTIVE**

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# Real Estate Market: An Urban Perspective<sup>^</sup>

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## Abstract

This short article provides a quick summary of an urban perspective of the real estate markets. Some new developments are also discussed.

Keywords: commute cost, housing cost, segregation, self-sorting.

JEL classification Number: J40, R20, R30.

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## Real Estate Market: An Urban Perspective

(Editing Note: a companion paper, entitled as “Real Estate Market,” is also included in the book, *World of Regional Science*).

### 1. Definition

According to the Cambridge Dictionary, “market” has different meanings. It may be “the business or trade in a particular product, including financial products.” It may also be “a place or event at which people meet in order to buy and sell things.” (<https://dictionary.cambridge.org/dictionary/english/market>).

### 2. History

Real estate can be approached in various ways. Some view it as durable consumption goods, while urban economics literature emphasizes its spatial dimension. Considering the uniqueness of each location, it becomes evident that real estate properties are inherently *heterogeneous*.

### 3. Theory

Economists have long recognized the significance of studying the real estate market from an urban perspective. For example, Kain (1962, p.137) concludes that "households substitute journey-to-work expenditures for site expenditures." Imagine that the job opportunities are concentrated in downtown areas. Workers face a choice: they can opt to "live near the jobs," saving on commute time and expenses, but likely paying higher rents and residing in denser neighborhoods. Alternatively, they can choose lower density areas with cheaper land prices and larger housing units, but this would entail higher commuting costs and time, whether they drive or use public transportation. Hence, workers' residential decisions involve a trade-off between commute and housing expenses. Similar concepts were subsequently formalized by Mills (1967) and Muth (1969), leading to the development of a substantial body of research known as "urban models" (Brueckner, 1987).

Residential locational choices often involve additional factors to consider. For example, certain races may face systematic discrimination, resulting in limited options for residential locations compared to other races. For simplicity, we assume that the residential location for the discriminated race is predetermined, and the trade-off lies in the accessibility of job opportunities for these individuals. This forms the basis of Kain's analysis (1968). Kain assumes that African Americans experience housing market discrimination, making geographic mobility challenging. As a result, they must either seek employment within their neighborhoods or allocate a significant portion of their income to transportation in order to work in more distant areas. Kain examines micro-data from Chicago and Detroit, finding evidence to support his hypotheses.

Recent research by Shertzer and Walsh (2019) also confirms the existence of segregation between African Americans and White individuals.

#### *4. Conceptualisation*

From an urban perspective, the housing market of a city consists of distinct “submarkets,” such as the "downtown" and "suburban." Other researchers may further divide the city into a limited number of segments, such as "East" and "West," and within each segment, there exist numerous smaller submarkets that vary in their distance from the central business district (CBD), where job opportunities are concentrated (Hanushek and Yilmaz, 2022).

#### *5. New developments*

The study of the urban housing market has witnessed numerous advancements, although only a few can be highlighted here due to space constraints. Firstly, individuals may choose to purchase housing units in certain areas for various reasons, such as access to quality public education (Hanushek and Yilmaz, 2022). Secondly, local public goods, like public education, may have substitutes available in the market, such as private education, which can be accessed regardless of residential location. This can lead to changes in locational choices and subsequently impact housing submarkets (Hanushek et al., 2011). Thirdly, individuals with different income levels may sort themselves into distinct submarkets. When an upper limit is imposed on the share of income allocated to housing expenses, either through housing affordability policies or macroprudential policies on debt-to-income ratios, spatial sorting becomes distorted, potentially magnifying or reducing welfare disparities between higher and lower income groups (Gong and Leung, 2024). Lastly, considering the self-sorting behaviors of households, transportation vouchers and housing vouchers can have varying implications for different groups of individuals (Yilmaz and Yeşilirmak, 2023).

#### *6. Policy relevance*

The studies of the urban housing market play a crucial role, particularly in understanding and addressing issues of housing segregation and its impact on inequality among different ethnic groups, as demonstrated by Kain (1968).

#### *7. Application fields*

Models of urban housing markets have been integrated into labor and macroeconomic frameworks.

#### *8. Prospect*

With increasing available granular data, one would explore more issues in urban housing markets.

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