

Aspects of Housing Choice

J. M. Pogodzinski
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 Part 2

Race and Housing Prices

- ⑩ In U.S. empirical studies show that housing demand by whites is affected negatively by the percentage of African American households in the immediate area.
- ⑩ Racial prejudice is an aversion to members of a racial group regardless of the attributes of that individual.
- ⑩ Studies show evidence of both aversion and active discrimination on the part of housing sellers. Neighborhoods experience racial "tipping."
- ⑩ Racial segregation in U.S. housing has declined somewhat, but remains high as measured by segregation indexes.

Affordable Housing and Gentrification

- ⑩ Renter households in the lowest 20% of the income distribution experienced an increase in ratio of rent to income; 0.47 in 1960 to 0.55 in 2000. In 2000 79% of this group spent more than 30% of income on rent.
- ⑩ Causes of trend? **Rent increases**, caused in part by government regulations, growth controls, etc.
- ⑩ Does gentrification contribute to the problem of housing affordability? Study of Boston [Vigdor (2002)] fails to find any direct connection, although low-income renters in Boston experienced increasing affordability problem – as they did in most other urban areas.

Urban Housing in Developing Countries

- ⑩ Much housing is "informal," below minimal standards, and not recorded as having been built.
- ⑩ Innovative study of informal housing by Annez and Wheaton (1984) compares ratio of recorded housing production to household growth from census. Example; ratio = 0.28 in Egypt.
- ⑩ Housing unit growth from census is a function of population, and does not depend on GNP per capita, cost of recorded units, lending, or public housing built.
- ⑩ Ratio of recorded units to household growth does depend on GNP per capita. Size of recorded units depends on GNP per cap., cost, and lending.

Neighborhood Characteristics – Choice of Jurisdiction (Tiebout-like model)

- ⑩ Assume there are M types of households (indexed $m=1,2,\dots,M$); households of the same type are identical
 - ⑩ They have identical preferences
 - ⑩ They have identical income
- ⑩ Assume that there are J jurisdictions (indexed $j=1,2,\dots,J$)

Neighborhood Characteristics – Choice of Jurisdiction

- ⑩ Each jurisdiction has:
 - ⑩ Amenities indicated by a_j specific to the jurisdiction
 - ⑩ Tax-expenditure package (t_j, y_j) specific to the jurisdiction
- ⑩ Are amenities exogenous or endogenous?
 - ⑩ exogenous
 - ⑩ endogenous
- ⑩ Is the tax-expenditure package exogenous or endogenous?
 - ⑩ exogenous
 - ⑩ endogenous

Multi-jurisdictional Equilibrium with Amenities and Tax-Expenditure Package

Ⓜ Equilibrium requires:

- Ⓜ Equilibrium prices for all commodities traded on markets
- Ⓜ Labor market
- Ⓜ Housing (land) market in each jurisdiction
- Ⓜ Balanced budget: $c_j(y_j) = t_j B_j$
- Ⓜ Locational equilibrium of households
- Ⓜ For each type of household m which resides in jurisdiction j †

$$U_{mj}(*x_{mj}, *h_{mj}, y_j) \geq U_{mk}(*x_{mk}, *h_{mk}, y_k)$$

NOTE: If type m resides in both j and k , then the inequality is replaced by an equation

† The asterisks (*) in the expression below indicate optimal (realized) consumption.

Tax Advantages of Home Ownership

Ⓜ Federal tax law in U.S. permits

Deduction of mortgage interest and property taxes
 Capital gain not taxed (up to 250K for individual and 500K for married couple)

Ⓜ Comparison of owning versus renting example

Real economic cost of house per year: $C = tV + rV + dV$

t = prop. tax rate, r = interest rate, d = utilities, maintenance, depreciation

Cost for home owner: $C_0 = (1-T)(t+r)V + dV$, T =tax rate

Difference as % of house value is $(C-C_0)/V = (t+r)T$

If $t=2.5\%$, $r=6\%$, $T = 35\%$, cost saving is 3% of V per yr.
