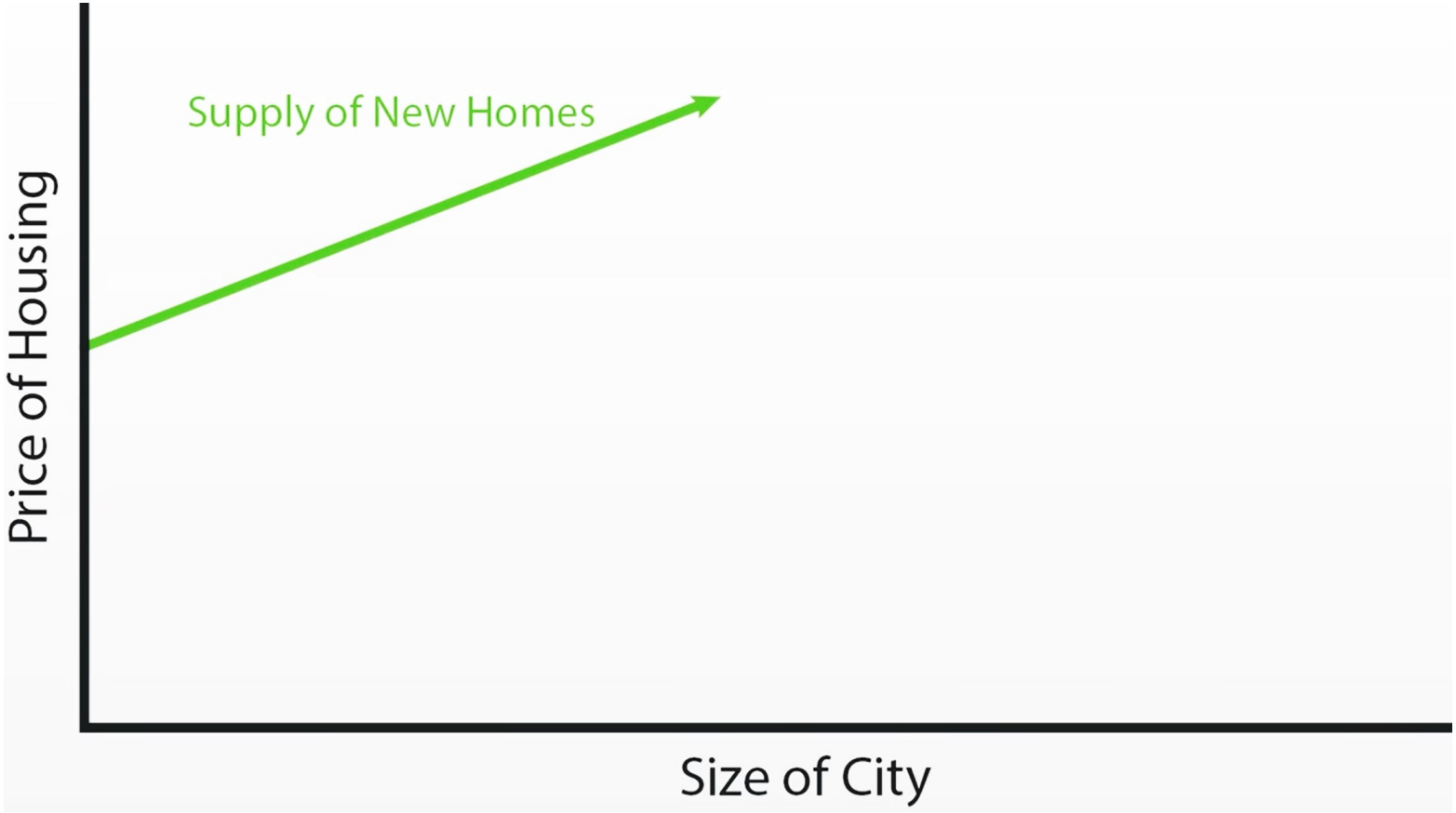
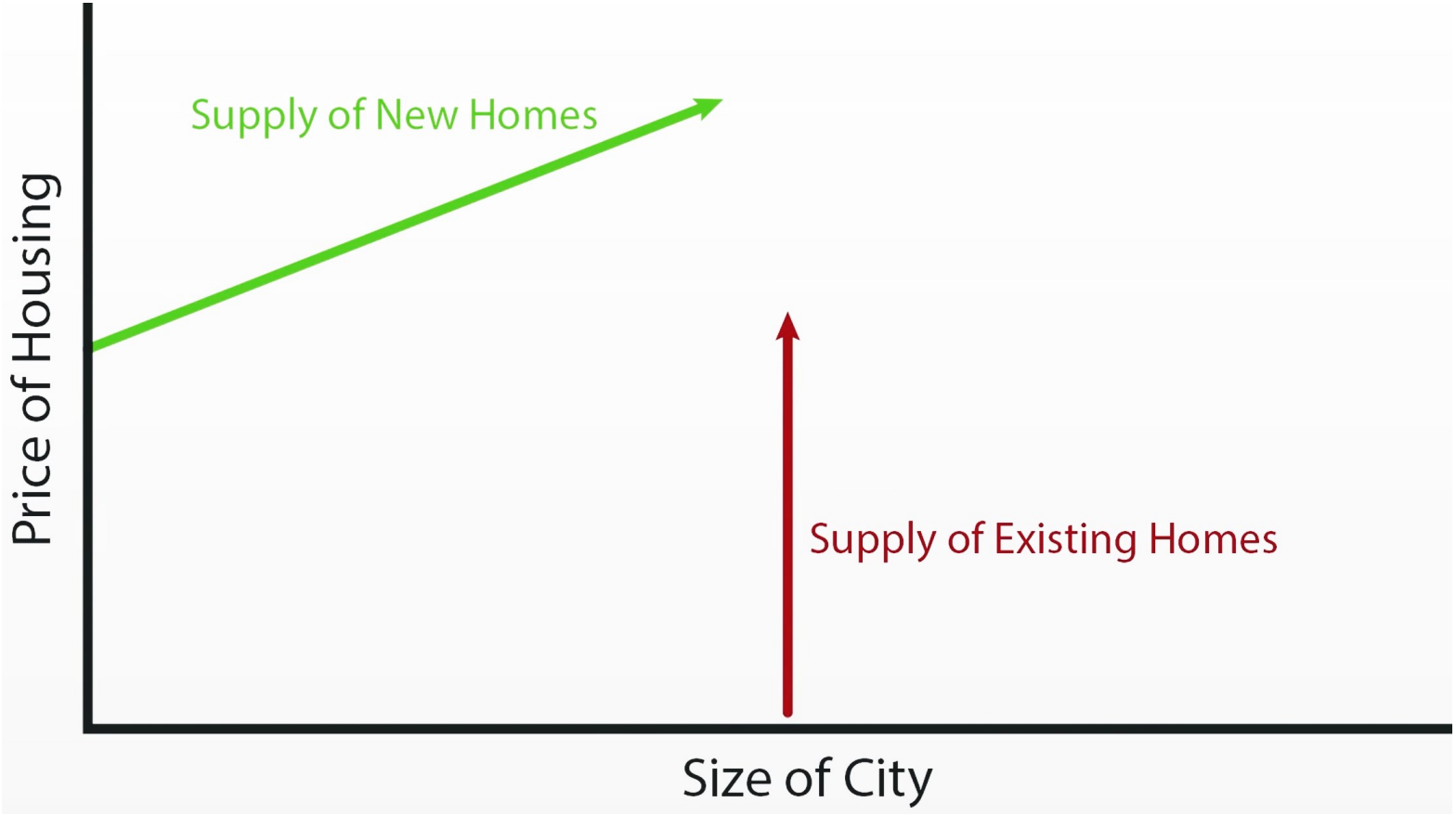
Quick Review

- The demand and supply curves for housing
- Movement along the curve vs. the shift of the curve
- Elasticity of housing supply:
  How much the quantity supplied of changes when the price changes

Dynamic and Durable Housing

RE420: URBAN AND REGIONAL ECONOMICS


Supply of New Homes
Price of Housing
Size of City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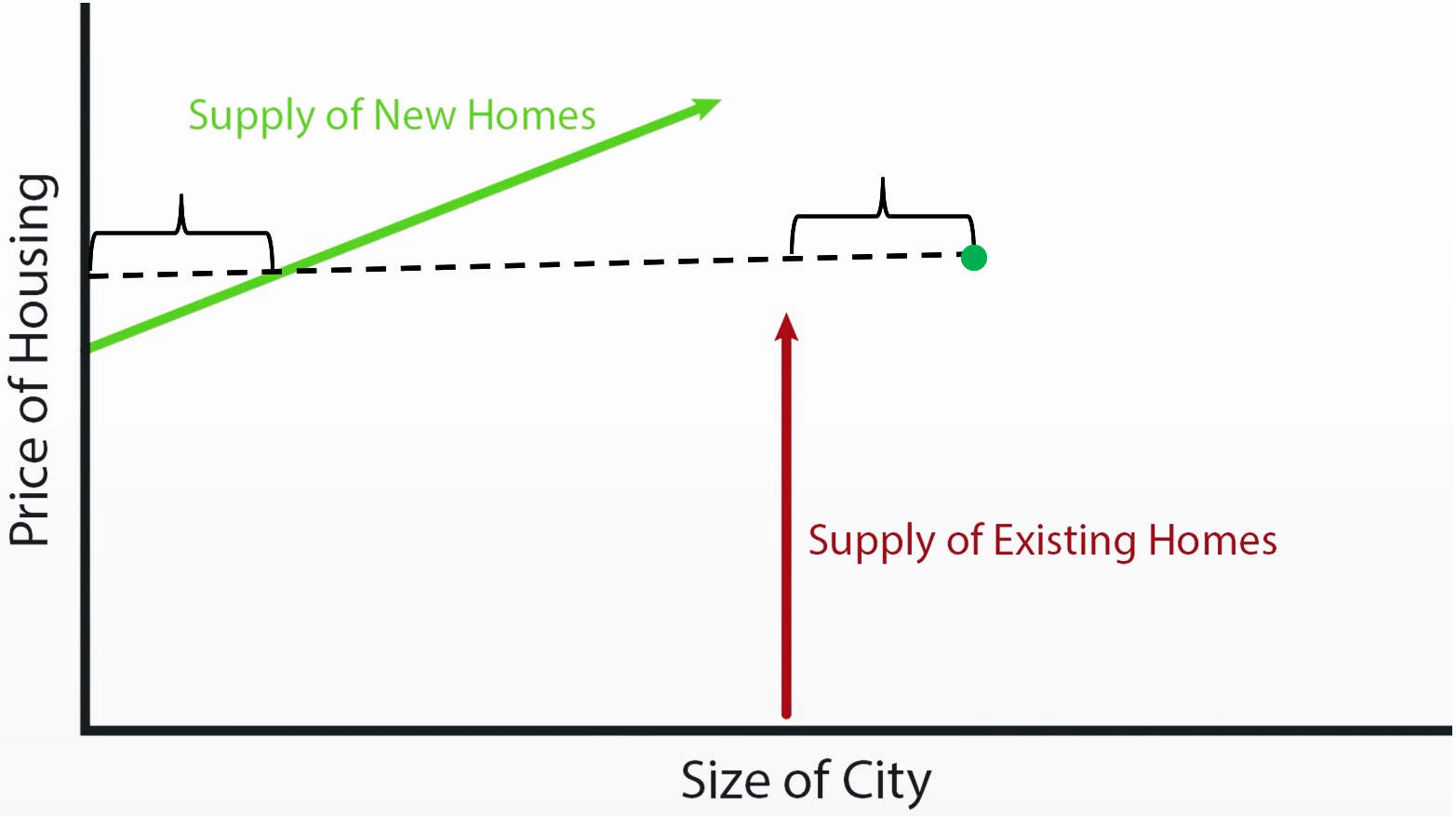
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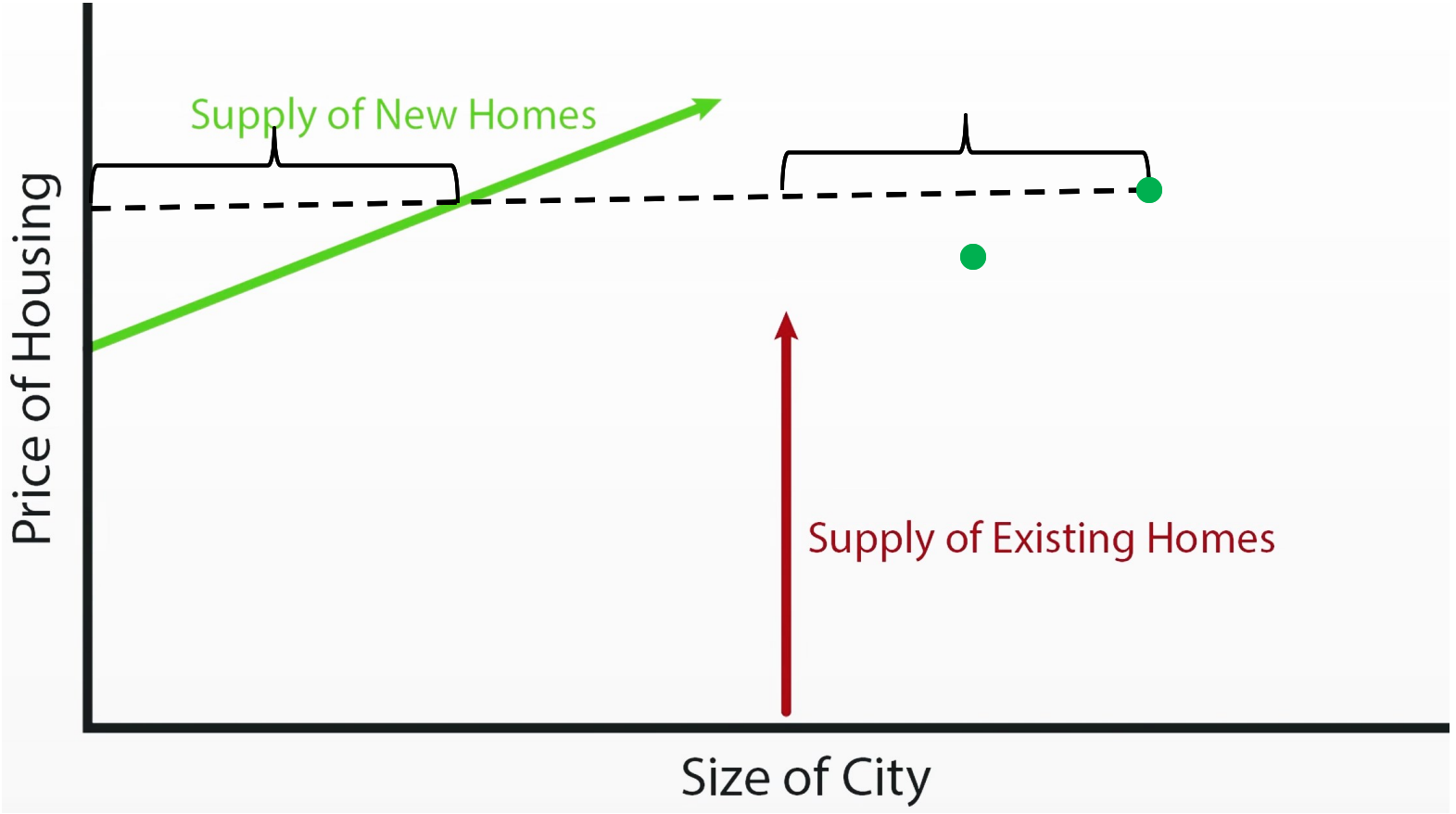
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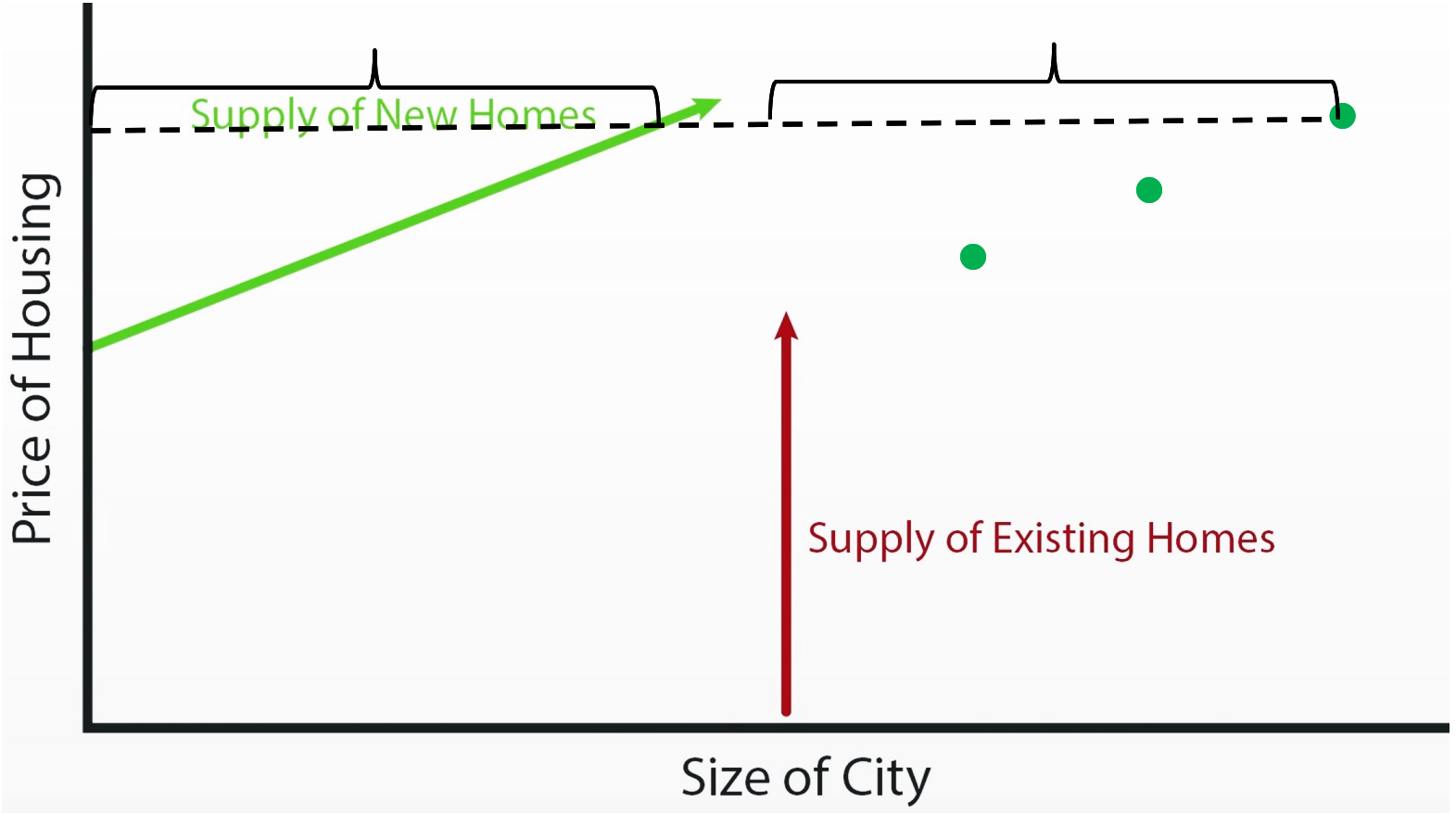
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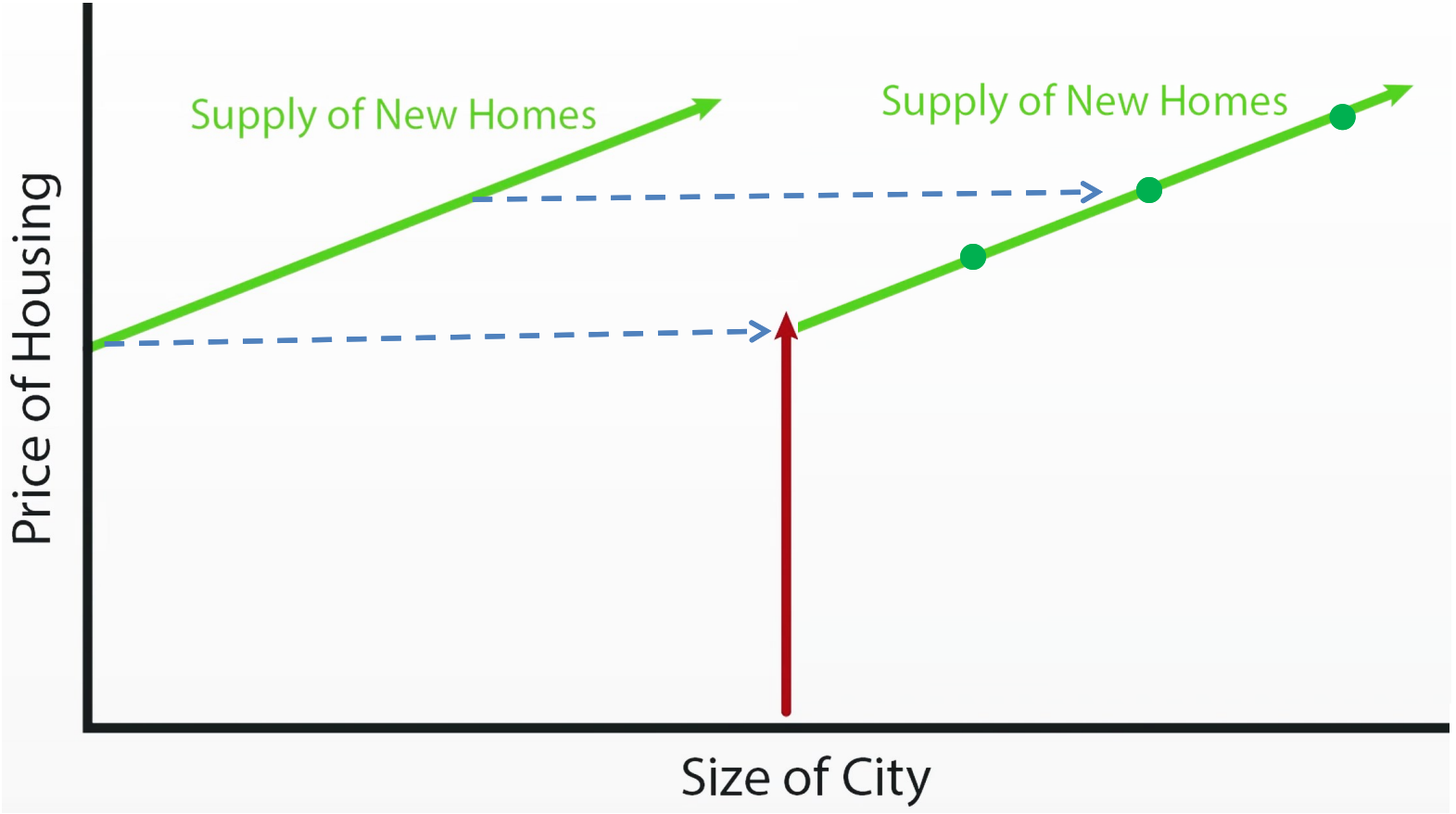
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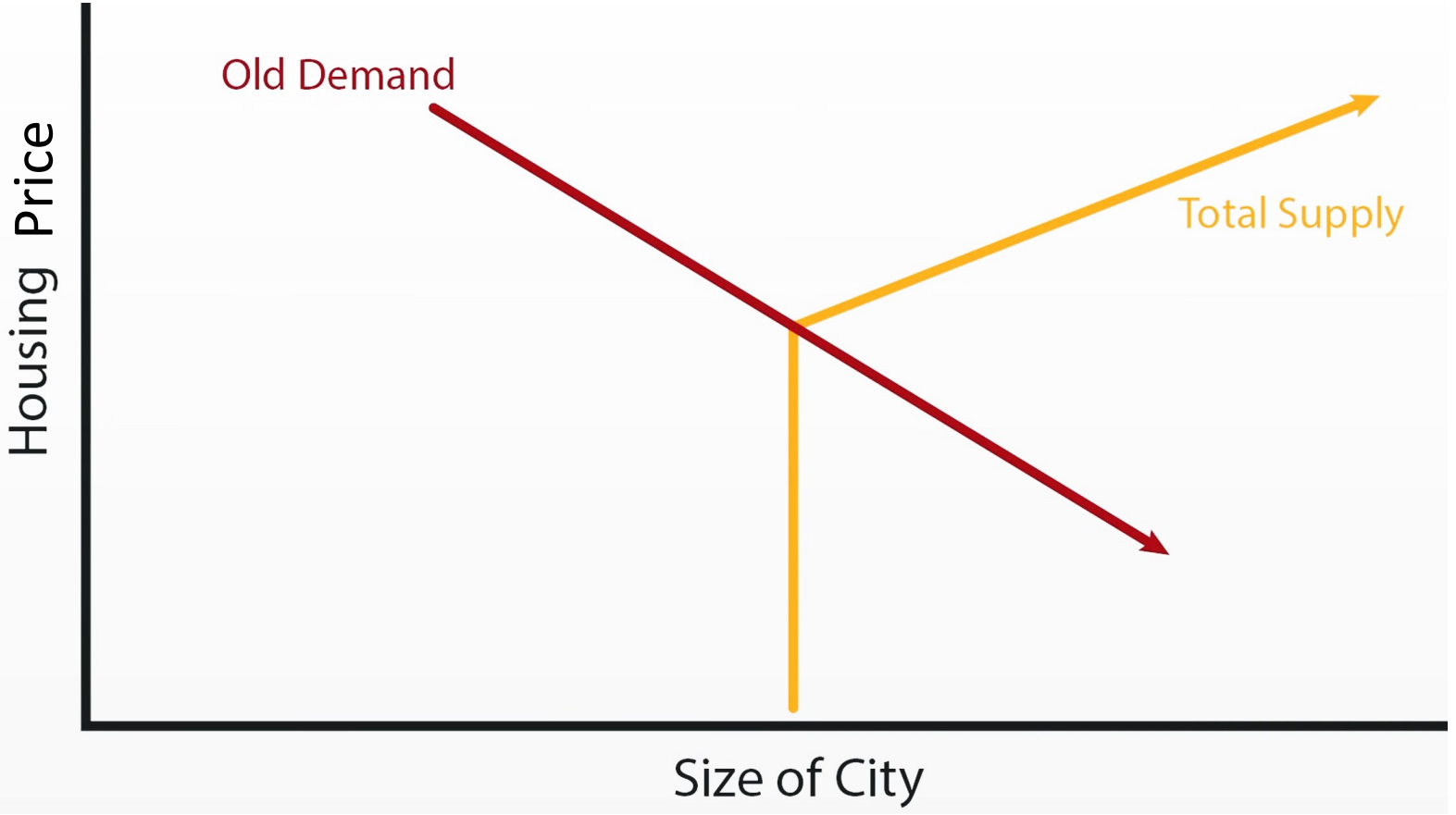
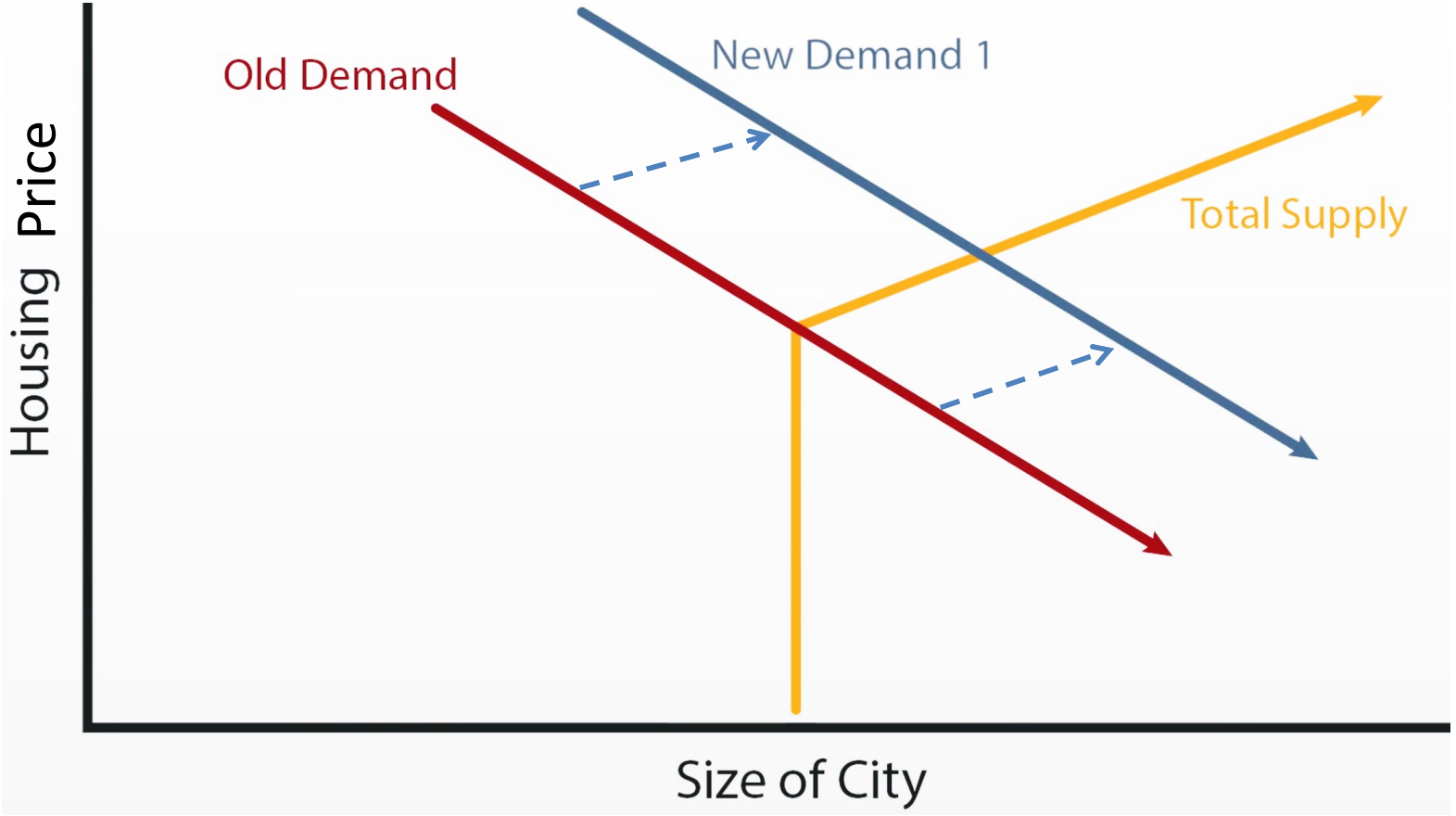
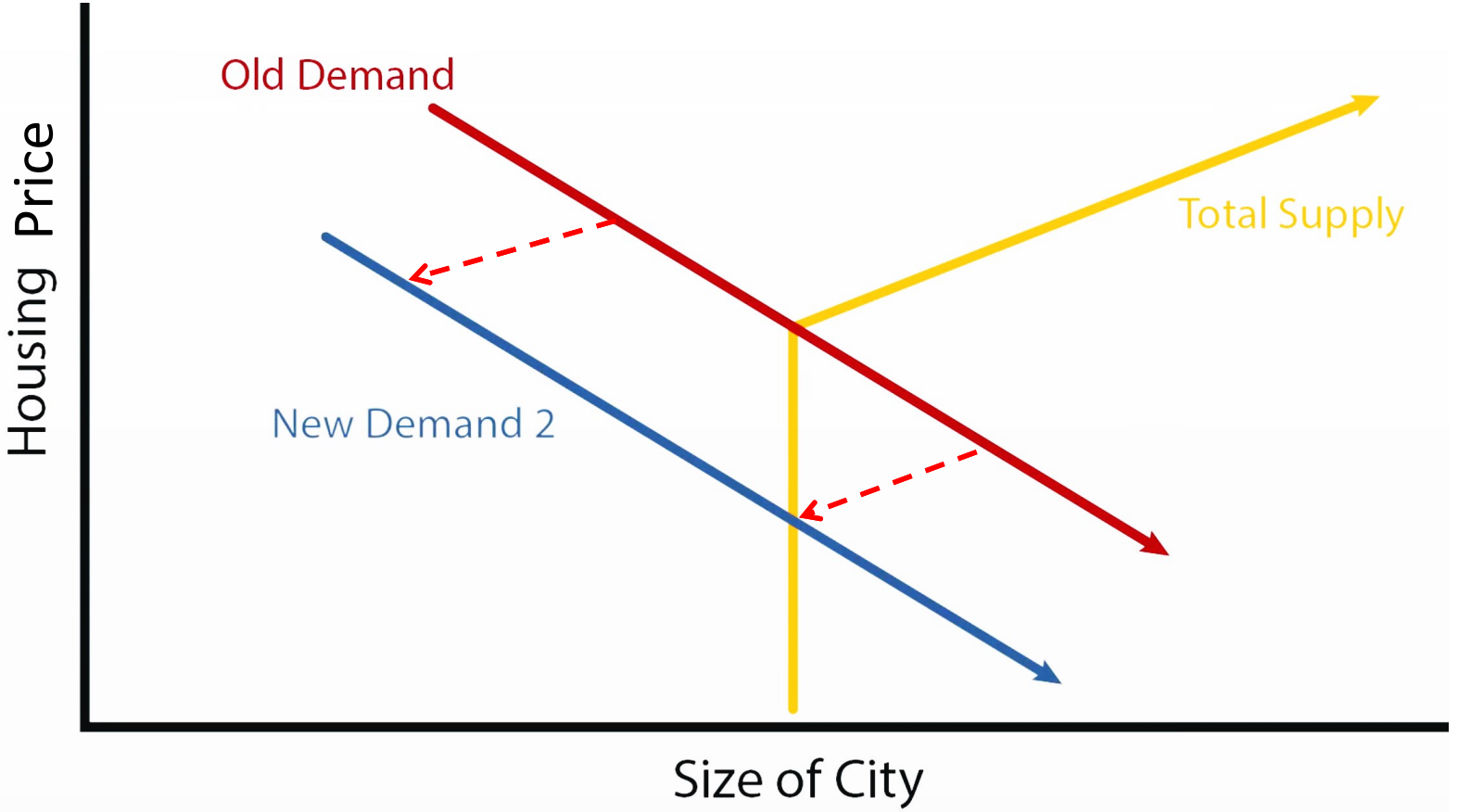
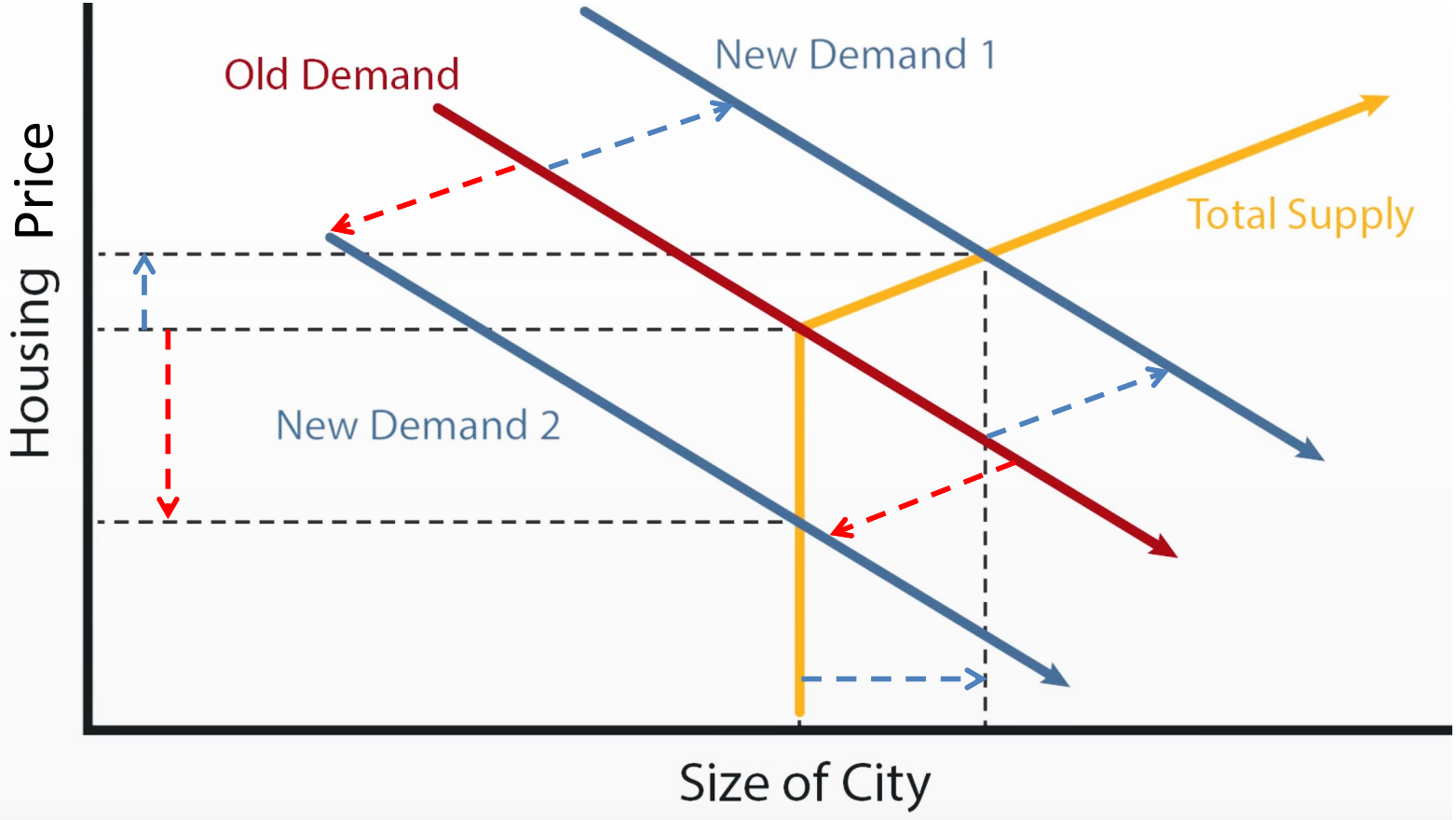

Old Demand
Total Supply
Housing Price
Size of City


Old Demand
New Demand 1
Total Supply
Housing Price
Size of City


Old Demand
Total Supply
New Demand 2
Housing Price
Size of City

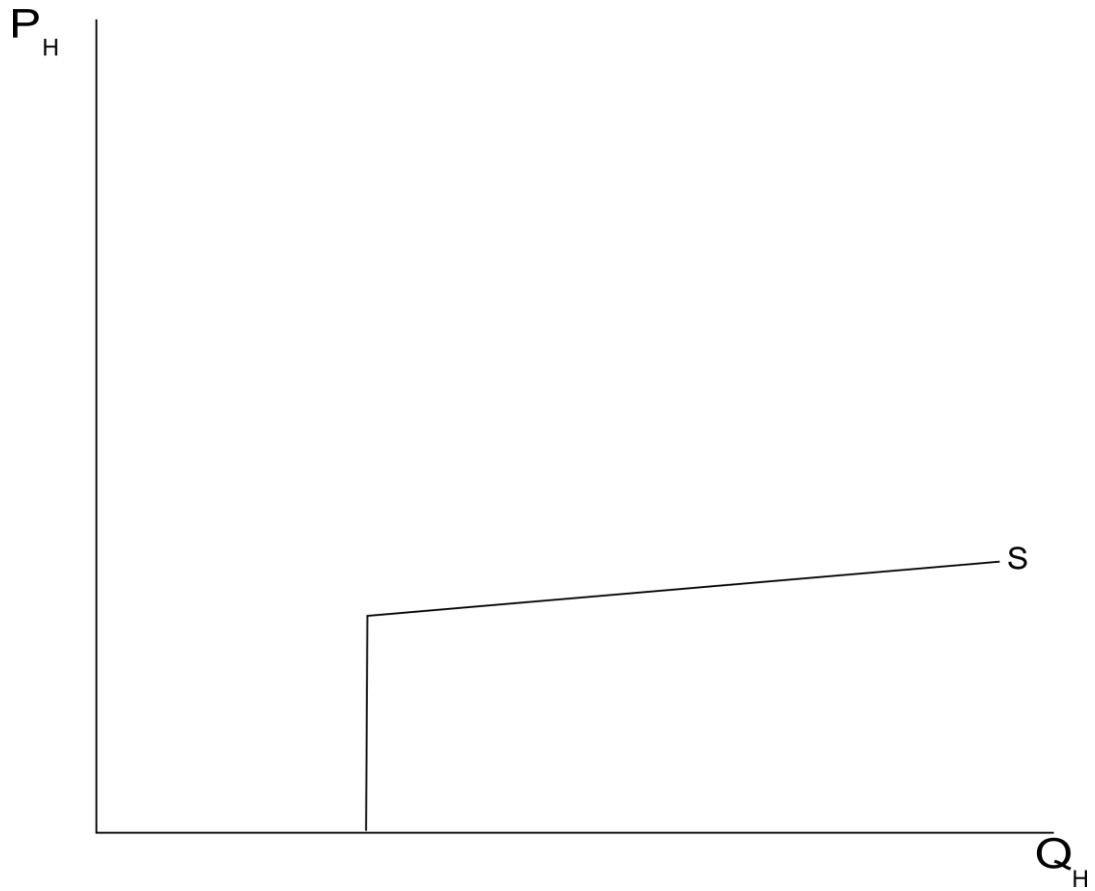

Old Demand
New Demand 1
Total Supply
New Demand 2
Housing Price
Size of City

Three Types of Housing Markets

Market Type 1: Elastically-supplied markets

- Little or no constraints on builders supplying new housing units whenever they can cover their fundamental production costs

- Most common in interior markets of the U.S.
  - Especially the Sunbelt region of the South and Southwest, e.g., Atlanta, Phoenix, Dallas, and Houston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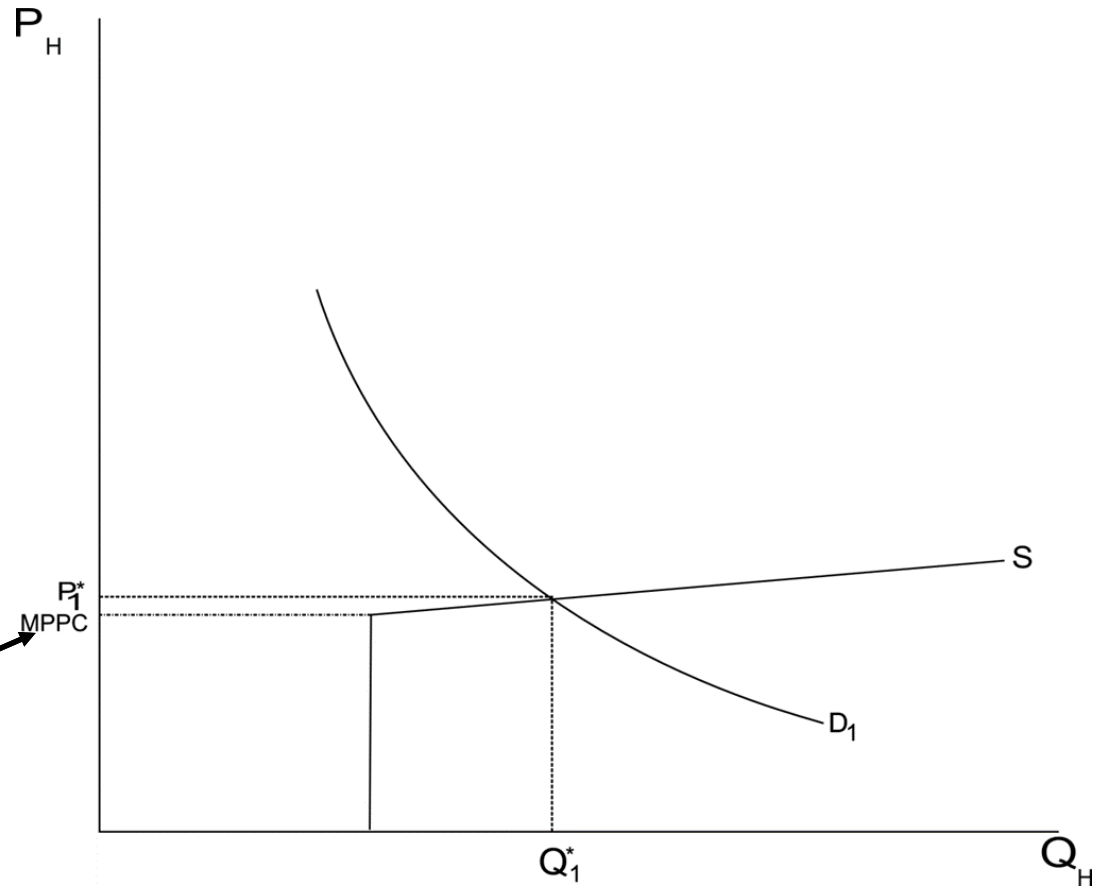
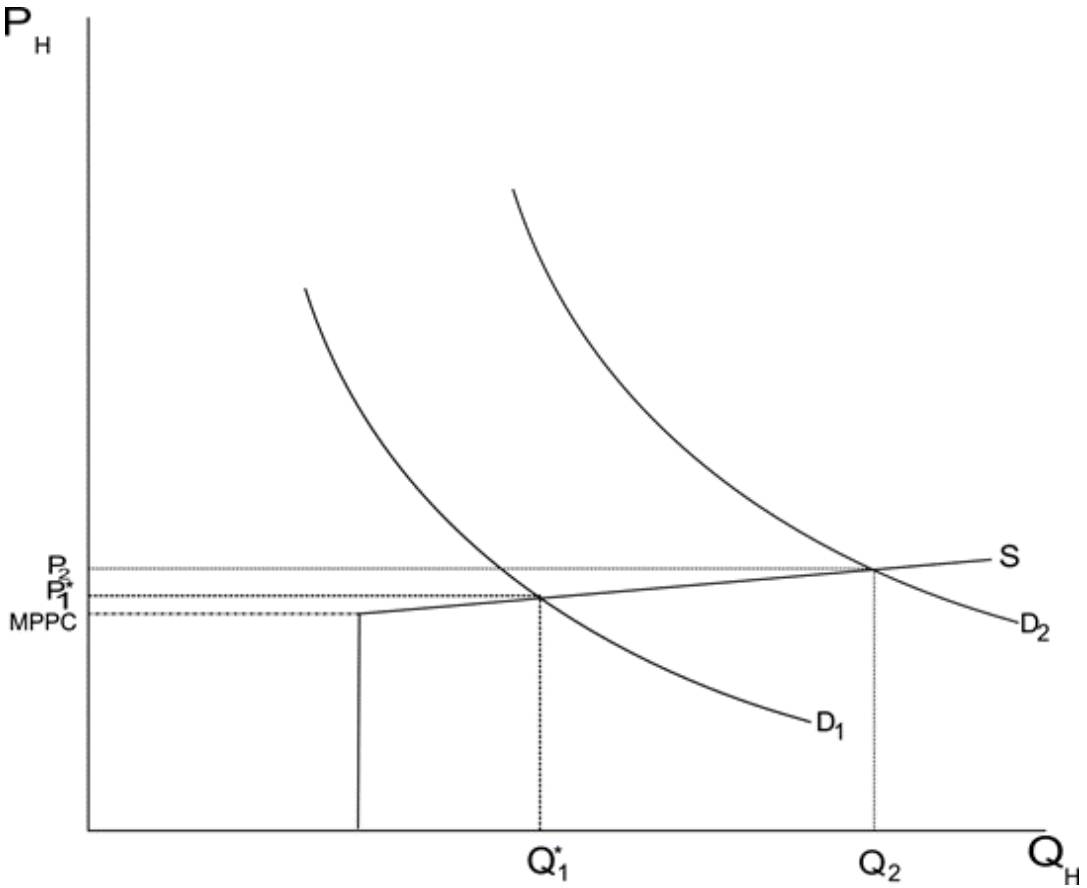


minimum profitable production costs


P H
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MPPC
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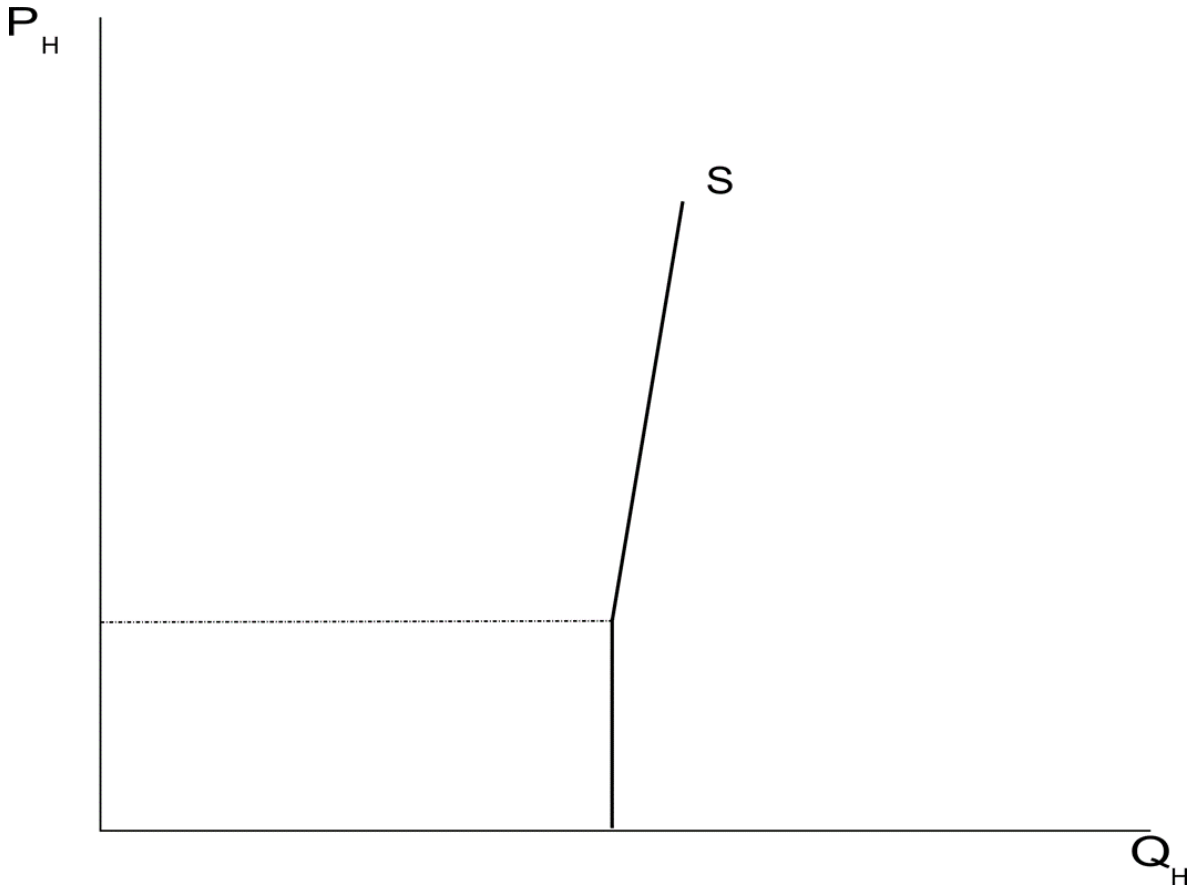
D 1
Q 1
Q 2
Q H

Market Type 2: Inelastically-supplied markets

- Substantial constraints on builders prevent them from supplying new housing units whenever they can cover their fundamental production costs

- Most common in coastal markets of the U.S.
  - New York City, Los Angeles, Chicago, Boston, Washington DC, San Francisco, Seattle
  - International markets include London, Hong Kong, Shanghai

- Land values are very high in these markets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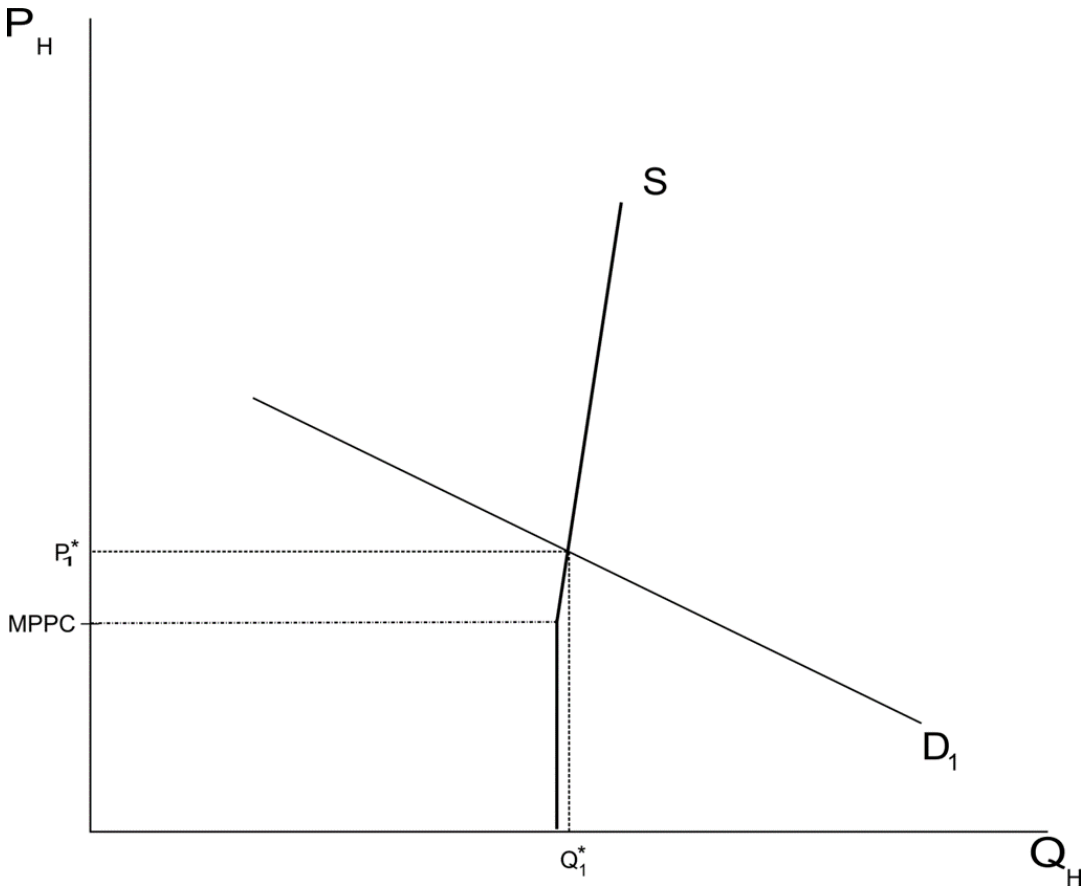
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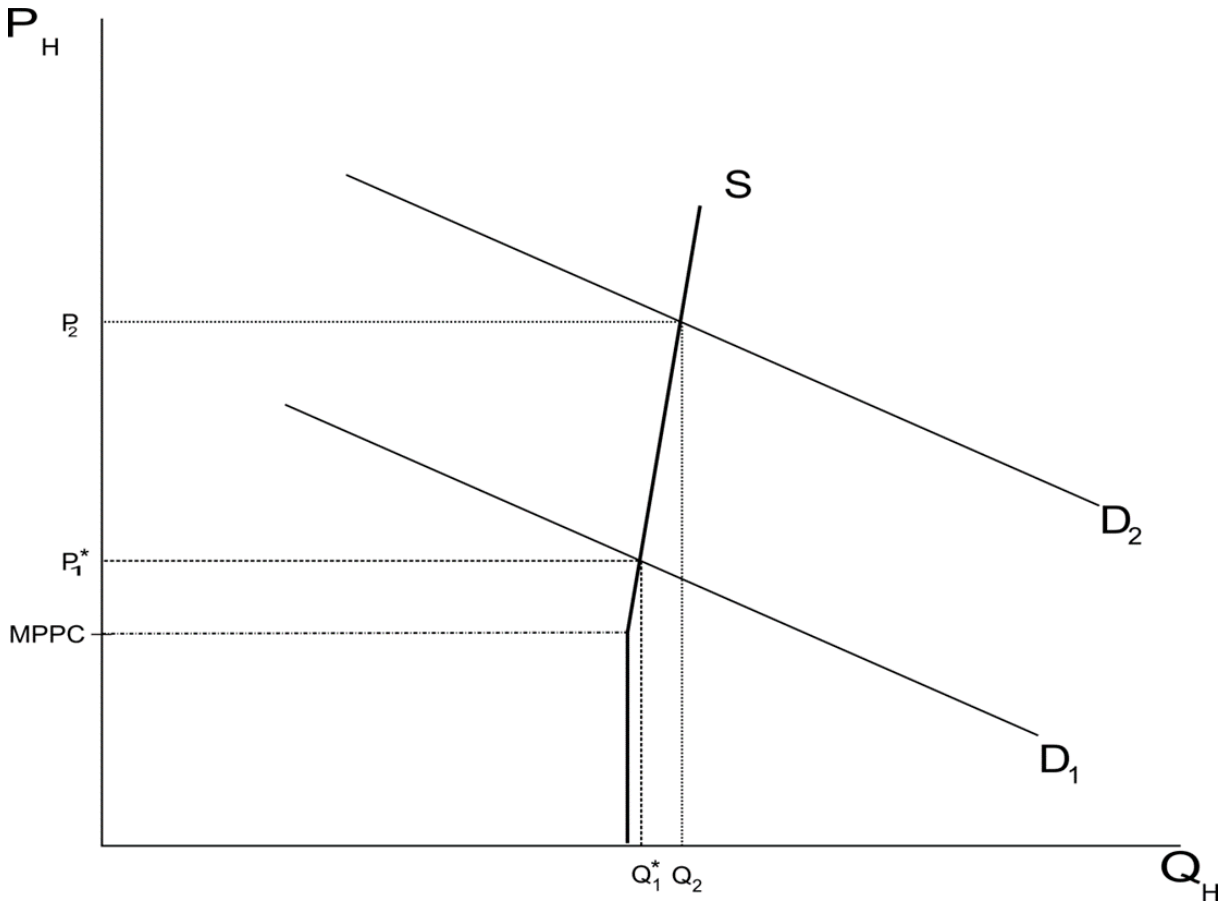
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Q 1 * Q 2
Q H

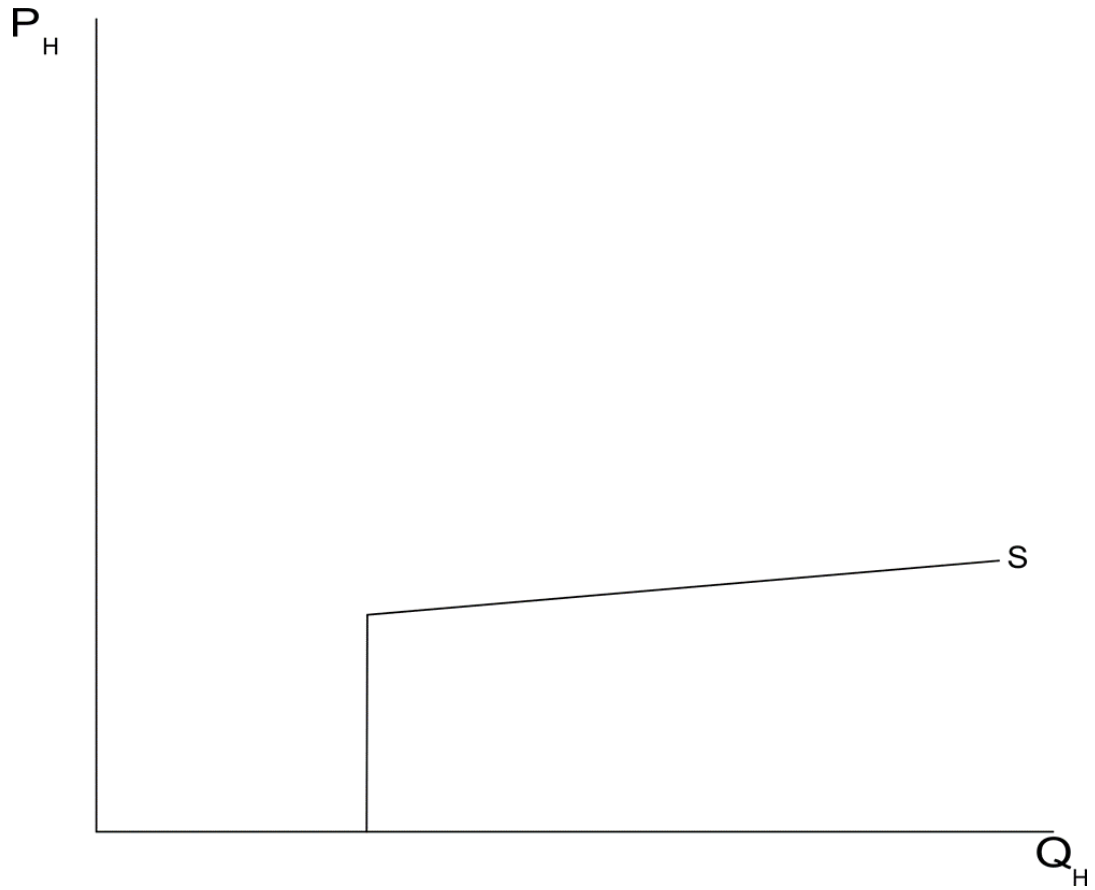
Market Type 3: Declining markets

Market Type 3: Declining markets

- Declining markets with prices below fundamental production costs. No supply side constraints on development, but prices are so low that there is no economic incentive to build.

- Most common in the Rustbelt region of the U.S.
  - Declining auto manufacturing and steel production towns such as Detroit and Cleveland

- Land is very cheap in these markets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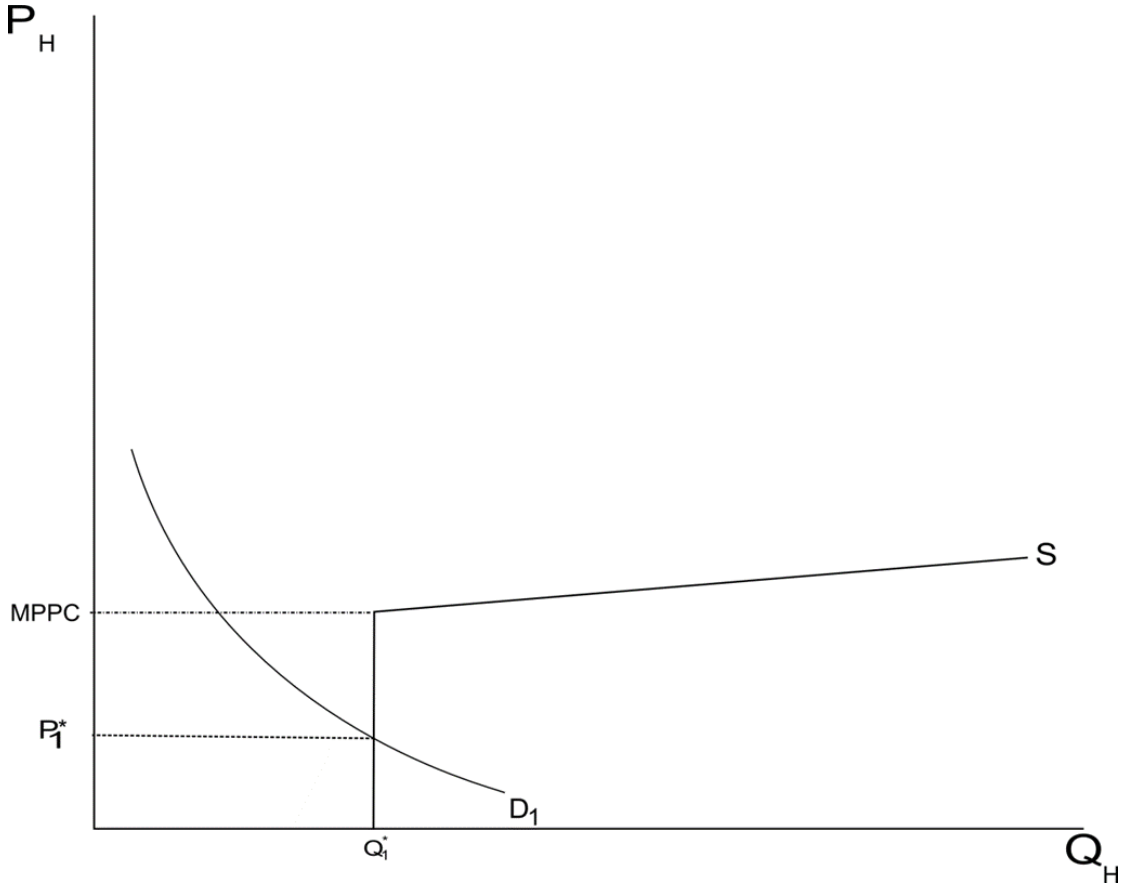
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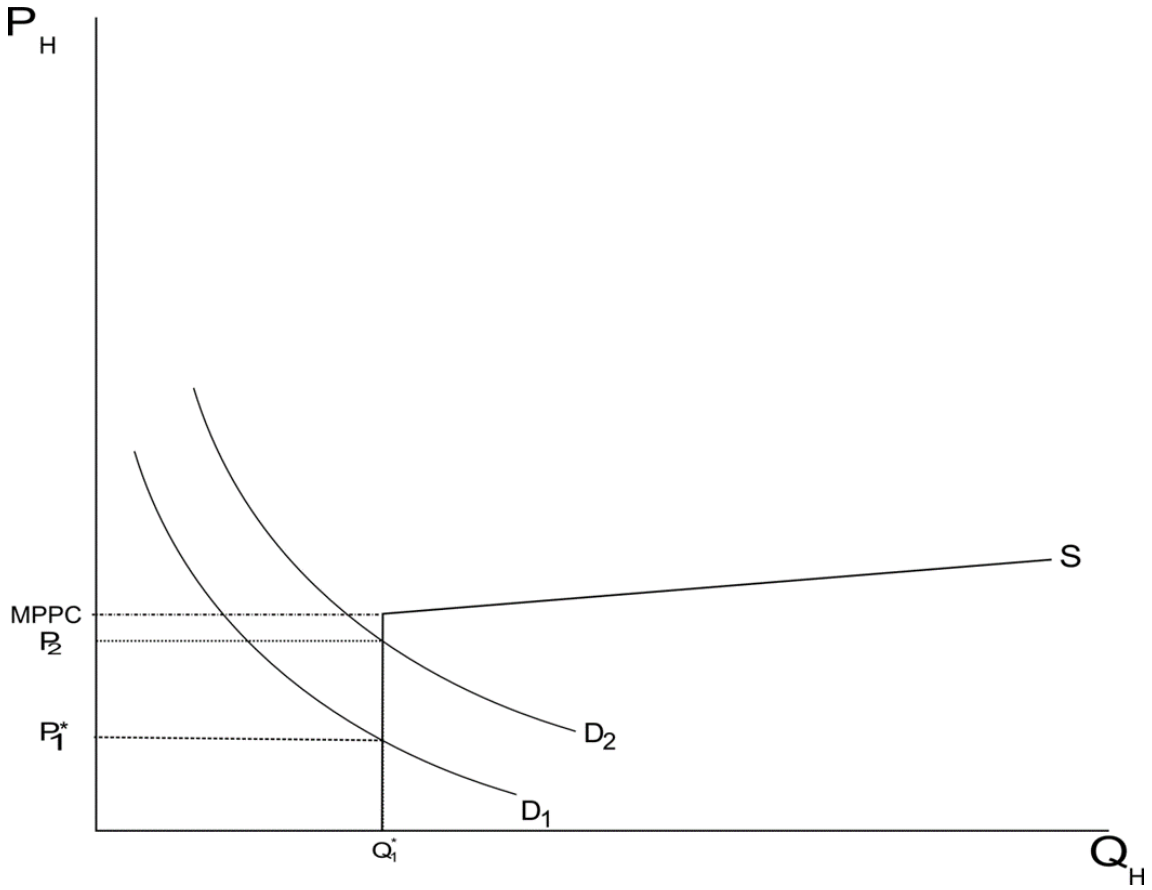
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Compounding Challenges in Shrinking Cities

Shrinking Cities

- As there are growing cities, there are also cities that are declining
  - More than 40 percent of U.S. cities (those with at least 10,000 residents) qualify as shrinking cities, having lost population between 1980 and 2010 (Bloomberg, 2019).
- City of Detroit
  - The city used to have one of the strongest auto manufacturing industries
  - The city started to decline as jobs in the car manufacturing industry became scarce.
    - Detroit's current population is one-third of the population at the peak.

Compounding Challenges in Shrinking Cities

- There are several traps that contribute to the further decline of shrinking cities.
  1. City budget issue
  2. Labor market decline
  3. Vacant and abandoned home

City Budget Issue

- Most cities derive revenue mainly from property taxes and federal government funding
  - A decline in house prices coupled with a shrinking population significantly reduces property tax revenue
  - Federal government funding allocations, which are also based on population, may decrease.

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  - Federal government funding allocations, which are also based on population, may decrease.
- With less revenue, cities face challenges in maintaining sufficient wages for police and reinvesting in infrastructure.
- Furthermore, to address these financial shortfalls, the city government may need to increase property tax rates.

Labor Market Decline

- With shrinking populations, local companies face difficulties in finding workforce
  - The companies may relocate to other, growing cities
  - Decrease in job opportunities make the city even less attractive
  - The remaining population tends to be lower-income, older, and less educated, requiring more government support
- With dwindling resources, the city faces limitations in reinvesting in infrastructure.

Vacant and Abandoned Homes

- Due to the aforementioned issues, selling properties becomes nearly impossible, and prices may approach $0
  - Residents may begin to abandon their homes without selling them
  - The increase in abandoned properties can make neighborhoods more dangerous and less attractive to live in

Prices Are Very Low in Detroit:
This House Was Listed on Ebay for $5,000 (Sept. 9, 2010)

House At 14% of Market Value - $5000 Or Best Offer

Real Estate Investors Cash Cow

Item number: 120595272745

Classified ad price: **US $5,000.00**

This is a classified ad listing. There is no bidding on this item, so contact the seller for more information.

Coverage: Read item description or contact seller for details. See all details
(Not eligible for eBay purchase protection programs)

Item specifics - Residential Real Estate

Sq Footage (Sq. ft.):	1109.00	Setting:	Urban/City
Property Type:	House	Number of Bedrooms:	3
Property Address:	4375 Freer	Number of Bathrooms:	2
City:	Detroit	Year Built:	1918
State/Province:	Michigan	Lot Size (acres):	6000.00
Zip/Postal Code:	48210	Sale Type:	Foreclosed Homes
For Sale by:	Owner		

Neighborhood Profile

Houses in Detroit That You Could Have Bought on Realtor.com on December 9, 2016: $29,900 (900 sqft; 3BR)

Video Clip

Why Detroit Is Tearing Down A Highway (13:05)

Key Takeaways

- Understand how durability of housing impact urban dynamics
- Understand the 3 different types of housing markets
- Understand the compounding challenges that shrinking cities face
- Readings:
  - Edward Glaeser, (2011) Chapter 2. Why Do Cities Decline? in *Triumph of the City.*