Book review


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Received 14 March 2005
Available online 19 April 2005

Merriam-Webster defines a primer as “a small introductory book on a subject.” The small introductory book called *A Primer on US Housing Markets and Housing Policy* presents an overview of domestic housing markets from the economist’s perspective. While not claiming to be a comprehensive literature review, one of the main chapters includes 79 footnotes and even more references. In short, the book provides the newcomer to housing economics a basis for understanding an economist’s approach to housing issues and policies, and an introduction to the seminal literature. While the focus of the text is on US housing markets and domestic policy, the economic concepts and analysis are universal and will be useful for the international reader as well. For those who teach housing-related courses to students with a policy, planning or a business-oriented background, the framework is also invaluable. This text falls neatly into a place between what the authors describe as the “more technical” and the “less technical” material that is currently available. In this respect, *A Primer* fills an important gap.

The book consists of three substantive chapters, plus an introduction and conclusion. Chapter 2 is particularly useful starting place, providing a set of stylized facts about housing and the basic concepts and issues that one must deal with in housing markets. While being concise in its treatment, the text refers the student to a variety of empirical studies that may approach a topic in different ways. For example, the often misused term “filtering” is defined and categorized three ways, according to

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how alternate empirical studies assess interrelationships between different quality sub-markets. Indeed, for students who are interested in pursing their own research on a housing-related topic, the progression of the chapter systematically ticks off different tools, concepts and measurement issues that confront the careful researcher. In addition, the chapter offers an overview of useful and typical data sources used in empirical investigations of housing markets. A brief review of how constant quality indexes are created and interpreted is also a highly valuable endeavor that is both practical and pedagogically useful. Once students grasp the basic notion of hedonic analysis, for example, they seem empowered to begin reading and understanding a large segment of the broader housing literature on their own.

Chapter 3 moves on to address different sorts of policy interventions and systematically evaluates several classes of government programs. The chapter provides a brief overview of subsidies, programs of direct provision, tax, finance, and other regulatory influences. Efficiency and other measures of economic impact (like the substitution of publicly provided housing units for private units) are evaluated for each class of policies. In particular, the appendix to Chapter 3 reviews the concept of consumption efficiency that seems particularly germane to the evaluation of various programs. The notion that policies often directly and indirectly alter household choices cannot be stressed enough. Ellen and O’Flaherty (2004), as a recent example, explore whether various policies, including some directed at housing, affect household composition and size. The evidence seems to suggest that households receiving various types of assistance have fewer members than non-assisted households. The nature of this secondary impact of policy seems rarely addressed in the design and implementation of the assistance programs.

Chapter 4 asks six questions that clearly overlap the realms of economics and policy and reviews the current economic evidence on these questions. The questions address housing prices, affordability, regulation, the functioning of the “bottom” of the market, minority experiences in housing markets, and homelessness. It is clear that these sorts of questions are the reasons that many students of business, policy, and planning gravitate to a housing markets class in the first place, and the chapter prepares the students with seminal work and a clear thought process with which to move on to their own investigations of related topics.

In general, policy analysts may wish there was more debate over the equity concerns addressed by many policies, but this text clearly represents a particular perspective on such questions. It does not attempt to explain the world, but provides numerous examples of how to pose small, insightful questions that begin to explore the basic, market-oriented processes that influence housing market outcomes. Without these sorts of insights, the most basic policies are clearly doomed to fail.

By way of criticisms, I have few. I would argue that the discussion of property rights is too brief and narrow, although empirical evidence regarding these sorts of questions is clearly limited. The section on property rights in Chapter 2 argues that two areas of law should concern students of housing markets—contracts and housing regulation. I suggest that a third and fourth branch of law be acknowledged—real property and real estate finance. For example, it is well known that foreclosure proceedings differ across states, and while we tend to think of mortgages as “contracts” they in fact have a
highly specialized set of institutions governing them that make them different from, say, a corporate bond or debenture. Across countries, the nature of conveyancing and the actual bundle of rights that are associated with different modes of tenure are likely to vary highly—both being functions of that society’s real property laws. Even in US, the treatment of leases as contracts is a recent phenomenon; historically, leases were creatures of real property law. These sorts of changes create real differences in the value received by both landlords and tenants. But I am preaching to the choir. Steve Malpezzi’s research on homeownership rates and other comparative housing topics speaks to these real differences. It is simply a little surprising that there is not more domestic research on these topics to be represented in *A Primer*.

There are some additional areas where demand for more thorough economic treatment of housing-related topics is emerging. As an urban studies professor has pointed out to me, many traditional policy tools were generated in response to the needs of depressed communities. These traditional tools are not necessarily the correct or desirable means of addressing issues like gentrification and affordability in different urban environments. New policy tools are needed; but to identify these tools, students and practitioners alike need economic models of housing markets that are more accessible and deal more richly with matters such as neighborhood dynamics, investment incentives, and the filtering process.

Indeed, traditional policy analysts seem to be evolving into a more entrepreneurial crowd, some in traditional public service and even more in community service roles. If demand from planning students is any indication, there is an evolving hunger for ways to think about innovative forms of tenure and finance. Housing economists and economics more generally already have a good deal of insight to bring to bear on these sorts of innovations. The literature on tenure choice and agency problems jumps to mind *a la* Henderson and Ioannides (1983) and more recently in such work as Miceli et al. (1998) on the value of limited equity cooperatives as an alternative to traditional public housing. The ways in which local initiatives design land trusts and other creative ownership structures aimed at improving housing affordability in cities would, for example, benefit from close attention to contract design and organizational economics. These decisions are not merely financial sleights of hand but choices that fundamentally affect the value of the housing services produced and the desirability of the programs themselves.

But this is not to lessen the praise for *A Primer on US Housing Markets and Housing Policy*, but simply to note that the demand for this sort of contribution from housing economics and finance is on the rise and the text’s focus and degree of difficulty are right on target.

### References


