Chapter 20
Housing Submarkets and Future Demographic Developments:
A Review on the Literature

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ABSTRACT

Europe is undergoing a profound demographic change. This change will affect significantly all aspects of modern economies including the demand and the prices of the housing stock. The relationship between prices of the housing market and associated demographic variables has been long established. However, in the current literature, the housing market is considered to be unitary and coherent, that is one price reflects the housing stock without taking into account the housing characteristics which in real economy are considered essential for price calculation. To this respect it must be noted that housing submarkets existence has been long established based on the current literature. However and in relation to housing submarkets, the actual goal of the studies currently exist was the definition process, the models and the techniques that should be employed in order to acquire best results. Housing submarkets are considered important in the understanding of different social phenomena. In this chapter an attempt is made to review the relationship of housing prices to demographic variables and then a review on the definition process of housing submarkets.

Capitalism has never flourished except when accompanied by population growth and it is now languishing in those parts of the world where population is stagnant (Longman, P., 2004).

INTRODUCTION

To our knowledge and based on the available literature there are studies that attempt to investigate the relationship between socio-economic variables and the housing market, or studies that investigate housing prices and housing characteristics ending up in the definition of housing submarkets. What all of these studies have in common is that they assume that the housing market is unitary but on the other hand they highlight the existence of housing submarkets. Furthermore, the importance of socio-economic variables as significant controlling factors in the interpretation of housing price variations couldn't be clearer.

In this chapter, we assume that the market is not coherent and unitary. We argue that the housing market is composed by a set of smaller submarkets with different dynamics and characteristics. Indicators of the housing market tend to be at their meaningful when highly aggregated and they are least reliable when disaggregated at the local level. At the highest level, the indices suffer from aggregation bias related with pooling prices from different markets. At the lowest level (e.g. local or neighbourhood) where sample sizes are smaller, price changes are often a result of differences in what has been sold between reporting periods rather than any substantive change in underlying market conditions. This practice exemplifies a more general problem in housing market analysis.

Talking about the housing market is actually rather unhelpful and this because masks the fact that, even in a buoyant market, there are some neighbourhoods where prices remained flat or decreased, and there are neighbourhoods is some parts of the country that prices continue to rise. The reality is that there are many markets and that the geography of the housing market (markets) is extremely complex. We make an attempt to review the known bibliography that deals with the relationship between housing prices and demographic variables as well as to the definition of submarkets.

FUTURE DEMOGRAPHIC DEVELOPMENTS AND THE HOUSING MARKET

There is a growing concern of the future development of the housing market, its prices and the degree of association with the demographic variables (Booth et al., 2000; Boersch – Supan, et al., 2001; Cameron et al., 2005). Housing prices and demographic changes are central in studies and debates surrounding the wealth of the state and the nature of a "healthy society" (Eichholtz, P & Lindenthal, T., 2007; Ermisch, 1996; Glaeser et al., 2004). Ageing population, low fertility rates, increasing immigration are only some developments that are expected to affect the real estate market at a significant degree (Gonzalez, 2005; Haurin et al., 2002; Green & Hendershot, 1996). In addition, the forthcoming retirement of the Baby Boom cohort, has to be added since it is expected to affect all economic aspects, including housing affordability and demand (Mankiw and Weil, 1989; Martin, R., 2005; Brooks, 2000a; Holland A.S., 1991).

The above relationship has stimulated, and is stimulated, by a large number of associated studies, theoretical and empirical works, regarding housing prices and the associated socio-economic issues. At the same time, studies on local housing markets and local housing segmentation has flourished. The importance of housing prices and their impact on the economy at every spatial scale is even more noticeable (Blasius et al., 2007; Maenning and Dust, 2008). Housing submarkets is another field of research which has attracted a lot of interest. Early literature on the definition of housing submarkets are the articles of Strazheim, 1975 and Rothenburg et al., 1991. Housing submarkets have long considered a powerful framework in which social segmentation can be calibrated but more importantly it has long considered a vital tool in identifying the structure of the city (Galster et al., 2007).

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