

ROUTLEDGE STUDIES IN THE EUROPEAN
ECONOMY

The Economics of Urban Property Markets

An institutional economics analysis

Paschalis A. Arvanitidis



The Economics of Urban Property Markets

An institutional economics analysis

Paschalis A. Arvanitidis



First published 2015
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

and by Routledge
711 Third Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

© 2015 Paschalis A. Arvanitidis

The right of Paschalis A. Arvanitidis to be identified as author of this work has been asserted by him in accordance with the Copyright, Designs and Patents Act 1988.

All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

Trademark notice: Product or corporate names may be trademarks or registered trademarks, and are used only for identification and explanation without intent to infringe.

British Library Cataloging in Publication Data

A catalogue record for this book is available from the British Library

Library of Congress Cataloging in Publication Data

Arvanitidis, Paschalis A.

The economics of urban property markets: an institutional economics analysis / Paschalis Arvanitidis.

pages cm – (Routledge studies in the european economy)

1. Cities and towns—Growth. 2. Real property. I. Title.

HT371.A78 2014

307.76—dc23

2014006420

ISBN: 978-0-415-42682-4 (hbk)

ISBN: 978-1-315-75877-0 (ebk)

Typeset in Times New Roman
by Wearset Ltd, Boldon, Tyne and Wear



Printed and bound in Great Britain by
TJ International Ltd, Padstow, Cornwall

The Economics of Urban Property Markets

This book examines the relationship between the property market and the urban economy. The stimulus for this work was provided by the seemingly ever-accelerating process of urban economic change and the noticeable failure of existing studies to adequately explore the pivotal role that the property market plays in this process.

Drawing on institutional economics, the central argument of this book is that the property market as an institution is a mediator through which urban economic potential can be realised and served. In developing this argument, the book provides a critical realist ontological framework that advances understanding of the institutional structure of the economy and the complex interrelation between the institutional environment and human agency, as well as a holistic theoretical framework of urban economic change, where appropriate emphasis is placed on the specific mechanisms, processes and dynamics through which the built environment is provided. Arvanitidis also explores an institutional conceptualisation of property market efficiency, defined in terms of the ability of the market institution to adapt its structure and to provide the outcomes that the economy requires. To inform empirical research on the developed concepts, the book also offers a generic analytical approach specifying appropriate research methods and techniques for investigation along with a specific research design providing an operational framework that translates developed theory into empirical practice.

The book's primary contribution therefore lies in its delineation of a holistic research programme to conceptualise the property market as an institution and to explore its role within the urban economy.

Paschalis A. Arvanitidis is Assistant Professor of Institutional Economics at the Department of Economics, University of Thessaly, Greece.

Routledge studies in the European economy

- 1 Growth and Crisis in the Spanish Economy, 1940–1993**
Sima Lieberman
- 2 Work and Employment in Europe**
A new convergence?
Edited by Peter Cressey and Bryn Jones
- 3 Trans-European Telecommunication Networks**
The challenges for industrial policy
Colin Turner
- 4 European Union – European Industrial Relations?**
Global challenges, national developments and transnational dynamics
Edited by Wolfgang E. Lecher and Hans-Wolfgang Platzer
- 5 Governance, Industry and Labour Markets in Britain and France**
The modernizing state in the mid-twentieth century
Edited by Noel Whiteside and Robert Salais
- 6 Labour Market Efficiency in the European Union**
Employment protection and fixed-term contracts
Klaus Schömann, Ralf Rogowski and Thomas Kruppe
- 7 The Enlargement of the European Union**
Issues and strategies
Edited by Victoria Curzon-Price, Alice Landau and Richard Whitman
- 8 European Trade Unions**
Change and response
Edited by Mike Rigby, Roger Smith and Teresa Lawlor
- 9 Fiscal Federalism in the European Union**
Edited by Amedeo Fossati and Giorgio Panella

- 10 European Telecommunications Liberalisation**
Edited by Kjell A. Eliassen and Marit Sjøvaag
- 11 Integration and Transition in Europe**
The economic geography of interaction
Edited by George Petrakos, Gunther Maier and Grzegorz Gorzelak
- 12 SMEs and European Integration**
Internationalisation strategies
Birgit Hegge
- 13 Fiscal Federalism and European Economic Integration**
Edited by Mark Baimbridge and Philip Whyman
- 14 Financial Markets in Central and Eastern Europe**
Stability and efficiency
Edited by Morten Balling, Frank Lierman and Andy Mullineux
- 15 Russian Path Dependence**
Stefan Hedlund
- 16 The Impact of European Integration on Regional Structural Change and Cohesion**
Edited by Christiane Krieger-Boden, Edgar Morgenroth and George Petrakos
- 17 Macroeconomic Policy in the European Monetary Union**
From the old to the new stability and growth pact
Edited by Francesco Farina and Roberto Tamborini
- 18 Economic Policy Proposals for Germany and Europe**
Edited by Ronald Schettkat and Jochem Langkau
- 19 Competitiveness of New Europe**
Papers from the second Lancut economic forum
Edited by Jan Winiński
- 20 Deregulation and the Airline Business in Europe**
Sean Barrett
- 21 Beyond Market Access for Economic Development**
EU–Africa relations in transition
Edited by Gerrit Faber and Jan Orbie
- 22 International Trade, Consumer Interests and Reform of the Common Agricultural Policy**
Edited by Susan Mary Senior Nello and Pierpaolo Pierani

- 23 Economic Governance in the EU**
Willem Molle
- 24 Financial Integration in the European Union**
Edited by Roman Matoušek and Daniel Stavárek
- 25 Europe and the Mediterranean Economy**
Edited by Joan Costa-Font
- 26 The Political Economy of the European Social Model**
Philip S. Whyman, Mark J. Baimbridge and Andrew Mullen
- 27 Gender and the European Labour Market**
Edited by Francesca Bettio, Janneke Plantenga and Mark Smith
- 28 The Economic Crisis and Governance in the European Union**
A critical assessment
Edited by Javier Bilbao-Ubillos
- 29 Competitiveness in the European Economy**
Edited by Stefan Collignon and Piero Esposito
- 30 The Contradictions of Austerity**
The socio-economic costs of the neoliberal Baltic model
Edited by Jeffrey Sommers and Charles Woolfson
- 31 The New Economic Governance in the Euro-Area**
Armin Steinbach
- 32 The Economics of Urban Property Markets**
An institutional economics analysis
Paschalis A. Arvanitidis
- 33 South-East Europe in Evolution**
Edited by Hardy Hanappi

**To Dana, Martha and Kostantis,
...for being more than tolerant and supportive.**

Figures

2.1	A model of structuration	30
3.1	A simple model of the property marker function	75
3.2	The provision of properties through circuits of capital	82
4.1	The transformational model of the structure/agency connection	109
4.2	A critical realist interpretation of the institutional socio-economic organisation	112
4.3	Urban economic change and property market institution	120
4.4	Purpose efficiency of the property market	129
4.5	The relative conception of property market purpose efficiency	131
5.1	An operational model of urban economic change and property market	152

Tables

3.1	Characterisation of institutional cities	88
5.1	Tactics for high-quality historical and comparative institutional analysis case studies	150
5.2	Characteristics of property market maturity	157
A.1	Components of the Fraser Institute's Economic Freedom Index	194
A.2	Variables of the Polity IV Project	198
A.3	Freedom House checklist questions	202

Preface

Real estate, real property, or, simply, property constitutes a major part of 'individual wealth' and is a substantial driver of the economy. This is because every activity needs space (property) for its setting and operation. Moreover, the property sector is so closely linked to the other sectors of the economy (e.g. the financial and construction sectors) that its performance greatly affects their performance and success, something that was made very clear in the recent economic crisis that afflicted the world.

However, limited research has been devoted to an understanding of the property market and to its relationship with the local economy. In attempting to do so, it is essential to consider not only property market outcomes, but also the property market process which gives rise to them. This is because it is through this process that property values are specified, information is generated and becomes available, legal interests are defined and enforced, uses are allocated and development and redevelopment are stimulated; thus, in general terms, the property market works to provide the spatial structures (real property) and legal interests (property rights) required for economic development. Developing a profound understanding of this process necessitates consideration of the institutional characteristics of the property market and the way these emerge, develop and evolve in relation to wider institutional structures and dynamics.

This book therefore sets out to explore in depth the relationship between the property market and the urban economy. The stimulus for this work comes from the seemingly ever-accelerating process of urban economic change and the noticeable failure of conventional economics to adequately explore the pivotal role that the property market as an institution plays in this process. Drawing on institutional economics, the central argument of this book is that the property market institution is a mediator through which local economic potential can be realised and served.

Owing to major philosophical and theoretical deficiencies in this field, the focus of this book is centred on the establishment of an appropriate philosophical framework, the development of a new theory and the specification of a research design for empirical investigation of the issues. The book's primary contribution lies in the development of a holistic research programme to

conceptualise the property market as an institution and to explore its role and location within the urban economy.

Critical realist principles provide the basis for the development of the philosophical position of the study. These are combined with institutionalist insights to construct a three-layer ontological framework that advances understanding of the institutional structure of the economy and the complex interrelation between the institutional environment and human agency. The study then lays down a rich theory of urban economic organisation, placing explicit emphasis on the institutional mechanisms, processes and dynamics through which property is provided. The interrelation between property market process and the wider institutional environment is explored, particularly in terms of efficiency in providing the appropriate market institutions and property outcomes to support urban economic potential. From this discussion the institutionalist concept of 'property market purpose efficiency' is developed. Building on the philosophical and conceptual frameworks, the study explicitly addresses requirements for concrete analysis. To do this, it first lays down a generic analytical approach specifying appropriate research methods and techniques for investigation, and, second, sets up a research design providing an operational framework through which developed theory is translated into an agenda for empirical research. This research design provides a blueprint for prospective empirical studies.

Acknowledgements

Every text that finds a place in the pages of a book has a history. The text in this book has grown gradually over a number of years. Much of it was part of my PhD thesis at the University of Aberdeen (UK). Other parts have matured through my post-doctoral work and the teaching experience I have had, particularly here in the University of Thessaly (Greece). Traces of my previous work abound in this manuscript.

Although the book has undergone extensive revisions since I finished my doctorate, immense gratitude is owed to Geoff Keogh, my academic mentor and good friend, whose intellectual curiosity, unlimited patience and constructive comments have steered me through very difficult and testing times. Another person who deserves special mention is another dear friend, George Petrakos, who trusted my academic skills and generously supported me at the beginning of my academic career here in Greece, something he continues to do.

Many other people have influenced my thinking in diverse and often subtle ways; sometimes through a perceptive comment, sometimes through discussion. It is always difficult to single out particular individuals, but I should try, even at the peril of significant omissions. I therefore want to thank Craig Watkins, Robert McMaster, Alan Evans, John Finch, Bryan MacGregor, Karen Sieraki, Norman Hutchison, Ioannis Theodossiou, Kostas Lalenis, Michel Zouboulakis, Christos Kollias, Nikos Kyriazis, Xenothon Paparrigopoulos and Apostolos Arvanitis. Needless to say, I must take full responsibility for any remaining errors, confusion or misunderstandings in the ideas presented here.

My editors at Routledge have been very supportive and ever helpful throughout this work. I gratefully acknowledge Terry Clague, who signed the book, Simon Holt and Emily Senior, who patiently watched me miss deadlines due to the joys and tragedies of life, and to Laura Johnson, who, thankfully, has pushed me over the end of the book's gestation. Without their encouragement and trust from the beginning, this book would not have been completed.

The book reveals my academic debt to a number of scholars, but especially to Geoff Hodgson and Tony Lawson, who, unknowingly, initiated me into the intellectual richness of original institutionalism and critical realism, respectively. I only hope that the book does not (overly) misrepresent their ideas.

Financial support for my doctoral study was jointly provided by Slough Estates plc and the Departments of Land Economy and Real Estate at the University of Aberdeen. Sir Nigel Mobbes and Professor Bryan MacGregor deserve special mention for making these funds available to me.

Last, but not least, I also thank my mentor and dear friend Jonathan (Mik) Smith, who has been very enthusiastic and supportive all the way. Mik has been kind enough to read most parts of the draft at very short notice and has offered helpful suggestions for making the text cohere better.

My wife, Dana, and my children, Martha and Konstantinos, have paid a heavy price for the writing of this book in absences, silences and sacrifices, but I cannot begin to speak of what I owe to their affection.

Paschalis Arvanitidis
Volos, Greece

Contents

<i>List of figures</i>	xi
<i>List of tables</i>	xii
<i>Preface</i>	xiii
<i>Acknowledgements</i>	xv
1 Introduction	1
1.1 <i>The research problem</i>	1
1.2 <i>Aims, objectives and research questions</i>	4
1.3 <i>Organisation of the book</i>	5
2 Philosophies and analytical frameworks	7
2.1 <i>Introduction</i>	7
2.2 <i>The philosophies in social science</i>	7
2.3 <i>The methodological frameworks in economic thought</i>	18
2.4 <i>Conclusions</i>	54
3 Urban development and property market	60
3.1 <i>Introduction</i>	60
3.2 <i>Urban transformation: stylised facts, contextual trends and emerging patterns</i>	60
3.3 <i>Conventional approaches to urban transformation</i>	68
3.4 <i>Heterodox approaches to urban transformation: the structuralist perspective</i>	76
3.5 <i>Heterodox approaches to urban transformation: the institutionalist contribution</i>	86
3.6 <i>Overview and conclusions</i>	100

4	Philosophical position and conceptual framework	104
4.1	<i>Introduction</i>	104
4.2	<i>A philosophical framework of socio-economic organisation</i>	105
4.3	<i>Urban economy and the property market institution: a theoretical framework</i>	117
4.4	<i>The efficiency of the property market</i>	120
4.5	<i>Overview and conclusions</i>	133
5	The research approach	140
5.1	<i>Introduction</i>	140
5.2	<i>From philosophical principles to methods of investigation</i>	140
5.3	<i>Formulating a research design</i>	152
5.4	<i>Overview and conclusions</i>	166
6	Overview and conclusions	171
6.1	<i>The trajectory of the inquiry</i>	171
6.2	<i>The conceptual framework: philosophical tenets and theoretical developments</i>	173
6.3	<i>From philosophical principles to a research design</i>	181
6.4	<i>Epilogue and the way forward</i>	184
	Appendices	187
I	<i>Property market institutional structure and institutionalised variety</i>	187
II	<i>Wider urban institutional environment and institutional uncertainty</i>	191
III	<i>Quantitative indicators of institutional quality</i>	193
	<i>References</i>	205
	<i>Index</i>	239

1 Introduction

1.1 The research problem

This book sets out to examine the complex, but indisputably significant, relationship between the property market and the urban economy.¹ The stimulus for this work lies in the seemingly ever-accelerating process of urban economic change and the noticeable failure of existing studies to explore adequately the pivotal role that the property market plays in this process.

Over the last three decades or so, cities in Europe have witnessed a remarkable structural transformation at the economic, social and spatial levels, fuelled by changes in production relationships, developments in (tele)communication and transportation technologies, and European economic and political integration. In this environment, it became apparent that urban areas had to reinforce existing strengths and at the same time to develop new qualities to cope successfully with the often traumatic problems of structural adjustment and to maintain a secure basis for local economic development.

This process of urban economic change and spatial reorganisation has been examined by a wide range of studies in search of answers to the 'urban questions'. Using a number of philosophical, conceptual and methodological frameworks, these studies have offered a variety of interpretations and solutions to urban transformation. However, despite the fact that every socio-economic activity takes place on land or within a built structure, very limited research has been carried out to explore the relationship between urban economic change and the dynamics of property markets. The vast majority of studies either treat the built environment as a passive backdrop to economic change, or acknowledge the interrelationship between economic and spatial structures but simplify and underplay the complex institutional mechanisms that account for the provision of the built environment.²

Clearly, the nature of inquiry and the resulting explanations depend on the theoretical viewpoint adopted. Mainstream urban and property economics (e.g. DiPasquale and Wheaton, 1996; Harvey, 1996) stress the importance of market mechanisms, assuming that they operate in a more or less efficient way to bring supply and demand into a state of equilibrium. Trade defines property prices that can be taken as meaningful representations of value, and the built environment is