

Identifying the Boundaries of Housing Submarkets: An Inflation Surface Approach

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ABSTRACT

One imperative that emerged from the Barker Review was the need to improve the measurement and understanding of sub-regional housing markets – no mean feat given the sheer complexity of local house prices in terms of their variation over both time and space. The theory of submarkets offers a conceptual framework within which we can potentially make sense of this complexity. This paper presents an attempt to develop a method of submarket delineation that is both theoretically sound and easy to apply in routine investigation. We develop an “Inflation Surface” approach as a means of identifying submarket areas. On the basis that houses in the same submarket will appreciate at similar rates, we clustered dwellings according to their proximity to each other and their estimated rate of constant quality inflation.

Key Words: housing, submarkets, inflation