

Assessing discrimination and environmental amenities in the housing market

NRP 54 Sustainable Development of the Built Environment

By

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1. Summary

In 1987 the World Commission on Environment and Development defined sustainable development as the development that meets the needs of the present, without compromising the ability of future generations to meet their own needs. An essential feature of sustainable development related to present generation needs is the quality of the built environment, a critical element determining households' quality of life. Textbook economics teach that differentials in environmental amenities are reflected in differentials in housing prices (rents or property prices), the same as differentials in housing size and quality. Therefore, from that point of view, there is no cause for concern or public policy intervention. That argument forgets the distributional consequences of environmental amenity changes, since it is the land owners and landlords, who bear the economic consequences of changes in environmental amenities. It also ignores the fact that housing markets are imperfect, so that the correspondence between housing quality and price might be imperfect. Finally, it forgets that households may underestimate the consequences of their own exposure to environmental nuisances. Some categories of households might be particularly exposed to nuisances that they underestimate and may fail to get full compensation through lower housing prices. That would hint at discrimination. If those households are geographically concentrated, that would hint at segregation.

The main objective of this project is to test those assumptions in the two major metropolitan Swiss Cantons of Geneva and Zurich. More precisely, the objectives are: (1) to assess the economic value of environmental and land use characteristics with a view to incorporating them into planning and other policy decisions; (2) to estimate the extent of price imperfections, i.e. of instances where house prices fail to fully reflect differentials in environmental amenities; (3) to identify patterns in those price imperfections, in particular a correspondence with socio-economic characteristics of the households; (4) to identify geographic pattern in those price imperfections; (5) to relate those price imperfections to specific housing market imperfections; (6) to propose specific measures in housing policy, urban planning and environmental policy designed to address those imperfections. The results of this project will allow incorporating distributional considerations into cost-benefit analyses of projects that modify environmental and land use characteristics.