Urban Economics

Paying for Peace of Mind: Urban Riots and Housing

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Against a backdrop of discontent with the status quo and disenfranchisement from the political system, Finn McLaughlin examines the effects of riots and crime on the urban environment, in particular on the housing market. His synthesis of three strands of urban economic literature sheds light on this phenomenon, which causes much damage to communities, and society and the economy more generally.

Introduction

In many respects, cities reflect the best in humanity. From the ancient metropolises of Jericho, Babylon and Uruk in the Levant, to their contemporary counterparts of New York, London and Tokyo, cities have long been recognised as hives of economic, cultural and social activity. Yet, while the agglomerative advantages of cities (Rosenthal & Strange, 2004) have offered unique solutions to economic and social challenges, these fonts of creativity and progress are not without flaw.

In particular, perhaps the most significant negative externality associated with cities as agglomerative entities is the greater threat posed by civil unrest, delinquency and violence. Perhaps the most well-known manifestation of this problem is the phenomenon of urban rioting. Riots often appear as spontaneous reactions to seemingly minor or trivial events, yet they reveal a brooding discontent bubbling just beneath the surface with only a spark required to ignite the blaze.

Examining the economic implications of urban unrest has taken on a renewed pertinence in light of recent cultural and political developments. In the United States, and indeed across the developed world more broadly, there has been a growing spectre of dissent and disillusionment that is now translating into demonstrative action. The Black Lives Matter movement, for example, has grown out of continued police brutality and institutionalised racism against African Americans. Though many of the organisation's demonstrations have been conducted peacefully, the simmering discontent that underlies their existence is reminiscent of conditions proceeding previous race riots. The events in Ferguson, Baltimore and Charlotte (Rothstein, 2015) serve as a reminder of how easily a situation can escalate. Similarly, the increasing polarization of American politics, as embodied by the Presidency of Donald Trump, has spawned a number of violent protests over the past year including a string of riots in California and Oregon in response to the election's outcome (Sottile, Schmidt, & Murphy, 2016). This paper has been directly motivated by these developments and seeks to unearth greater insight into the economic dynamics underlying these civil disturbances, specifically in relation to housing markets.

An extensive volume of literature has been published since the regular race riots and turbulence of the 1960s, dissecting the causes and effects of riots, yet the literature on the subsequent consequences of these violent phenomena for urban property markets remains somewhat underdeveloped. Riots are, by definition, highly destructive events, both materially and economically. Alongside the widespread looting and property damage, they can also severely damage an area's business confidence and prompt neighbourhood instability as residents reconsider locational decisions. In light of these detrimental effects riots inflict upon the urban environment, it is only natural to wonder how this phenomenon effects housing in afflicted areas.

This issue lies at the intersection of three interrelated strands of urban economic literature — namely, the economics of riots, crime and housing. The aim of this paper is to provide a comprehensive synthesis of this nexus of literature. It is hoped that by examining the dynamics of urban riots and their bearing on housing markets and locational decisions, that a more connected, complete image will emerge of a fascinating, yet largely unexplored area of research.

The remainder of this paper will provide an overview of the prominent literature on riots, crime and housing, respectively, before discussing what conclusions might be drawn from this pool of knowledge and identifying potential avenues for future research.

Urban Riots

Since the widespread civil unrest and race riots that engulfed the United States during the 1960's, a growing body of literature has emerged seeking to examine the causal forces driving individuals and communities to engage in violent civil disobedience and specifically, its manifestation in the form of urban riots.

The spatial confinement of the city itself may foster an environment that is ripe for conflict. While some argue that the shared social institutions of the city may foster a common sense of urban identity amongst heterogeneous city dwellers (Barth, 1982), a multitude of ethnically, socially and culturally diverse factions living in close proximity may in fact breed tensions. While urban conflicts of this kind have often fed upon sectarian divides, as in Belfast (Besley & Mueller, 2012) and Ahmedabad (Field, Levinson, Pande, & Visaria, 2008), perhaps more prominent in recent memory are urban race riots which polarise cities along racial and ethnic lines. This is particularly pertinent in the context of the United States, where the legacies of antebellum slavery remain shackled to the national conscience and embedded in perceptions of identity.

Many authors have sought to construct empirical models of rioting behaviour. Building on the seminal work of Tullock (1979), DiPasquale & Glaeser (1998) provide a highly informative study that seeks to adapt the neoclassical framework of rioting to account for community-level variables. While the authors' findings bolster the traditional view that riot incidence and intensity are a function of rioters' opportunity cost of time and the likelihood of facing reprisal, they also offer a counterargument to the notion that community factors are irrelevant. They highlight the role of ethnic heterogeneity and the potential for individual-level variables, such as unemployment, to partially capture community-level forces.

In terms of the underlying conditions that give rise to riots, perhaps the most cited factors are divisive residential segregation (Olzak, Shanahan, & McEneaney, 1996) and economic disenfranchisement (Kerner, 1968; McCone & Christopher, 1965). Some have suggested economic and social issues were compounded by the sense of relative deprivation (Chandra & Foster, 2005), while others believe greater fiscal accommodation could have eased such tensions (Gillezeau, 2010). Myers (2000) contributes a fresh perspective to a long strand of research exploring the contagion and diffusion of riots, emphasising the role of media coverage and bias towards concentrating coverage as a function of riot severity.

While there has been considerable analysis of the underlying societal forces that foster a riot-prone environment and induce citizens to take to the streets, it is equally important to understand the economic and social consequences of such activity. Riots are implicitly destructive. They create instability and uncertainty that may hamper small inner-city businesses facing steeper insurance premiums (Aldrich & Reiss Jr, 1970), attenuate employment opportunities (William J Collins & Margo, 2004) and dissuade investment and growth (Matheson & Baade, 2004). The resultant decline and loss of amenities is likely to negatively impact property prices. Furthermore, Brazil (2016) highlights the transitory increase in residential segregation experienced by some riot-afflicted American cities in subsequent decades and, indeed, a more pronounced, long-term increase in segregation at the suburban level.

Though research into the direct effects of urban riots on housing markets remains an under-populated strand of the broader body of urban economic literature, there are a few influential studies that merit discussion. In particular, Collins & Margo's (2007) findings that owner-occupied property prices in riot-afflicted areas experienced significant and persistence declines relative to non-afflicted areas, controlling for riot severity. The authors attribute these effects to changing perceptions of security and amenities. Similarly, Collins & Smith's (2007) evidence on the negative effect of proximity to riot epicentres on property prices in Cleveland lends support to this hypothesis. These studies provided key motivations for this paper and highlight the potential of this topic for further exploration.

The Economics of Crime

There exists a rich body of literature studying the economic implications of both the underlying motives of urban crime and its consequences, from the seminal work of Thaler (1978) to more recent evaluations of this distinctly urban issue (Glaeser & Sacerdote, 1996). Much of this research has focused on the impact of crime on residential property prices, with the vast majority of studies finding violent crime, rather than property crime, to be a key disamenity that depresses housing prices. Crime and urban rioting are inextricably linked and may exhibit similar dynamics; as such it is important to now discuss the economics of crime in the urban economics context.

A wide array of literature on urban crime may shape the lens through which riots are analysed. Boggess & Hipp (2010), for example, focus on the effects of crime on neighbourhood stability and how this interacts with ethnic composition, with important connotations that may be applicable to riots. Others have focused on the varying degrees to which crime rates are capitalised into asset prices based on neighbourhood income levels and the nature of the crime (Tita, Petras, & Greenbaum, 2006). Furthermore, Frischtak & Mandel's (2012) study of the introduction of UPP police stations into the favelas of Rio de Janeiro highlights a possible means of deterrence.

A key issue that has emerged in the literature on urban crime relates to its endogeneity, both in terms of reported statistics its relationship with house prices. The unreliability of crime reporting, due to skewed incentives (Baer & Chambliss, 1997), has been well documented as well as the endogeneity of regional reporting (Skogan, 1999) and its disconnect with trends in victimisation (Levitt, 1998), meaning that it is very difficult to determine the exact causes underlying changes how and how often crimes are reported. As identified by Ihlanfeldt & Mayock (2009), there are five primary mechanisms through which property prices and crime may be endogenously related and, having instrumented for crime accordingly, they find prospective homeowners will pay *"a nontrivial premium"* to live in a safe neighbourhood. Gibbons' (2004) study of crime's negative influence on Inner London property prices implements a range of potential instruments to circumvent the endogeneity between property prices and the crime rate, including crime density per square kilometre and the proximity to public houses. These findings and strategies serve to inform our understanding of the crime-property dynamics that may be at play within communities in the aftermath of riots.

Similarly, Cullen & Levitt's (1999) analysis of the net out-migration pervasive in crime-ridden neighbourhoods may hold for areas affected by riots. The authors present fascinating insight into how crime drives residential dislocation within cities, particularly amongst highly educated households and families. Similar studies have lent support to these results and individuals' tendency to *"vote with their feet"* in response to higher crime and perceived threats (Linden & Rockoff, 2008).

These findings have acted as a central motivation for this paper, based on the rationale that riots are likely to induce similar dislocation. Given the rigidity in the adjustment of the housing stock (Glaeser & Gyourko, 2001), this may place strain on the supply of properties in areas believed to be safe, thereby translating into premium pricing. However, as noted by Collins & Smith (2007) in relation to crime, such dynamics may hinge on how riots are perceived. In other words, if riots are perceived to be indicative of future trends in the long-term stability and desirability of a neighbourhood then it is likely that this will be reflected in property prices. In contrast, if the riots are believed to be a once-off disturbance, then one would expect their effects on housing markets to be transitory.

Housing Markets & Property Valuation

The final strand of the urban economic literature central to the analysis in this paper pertains to housing markets and property valuation. As with all assets, a property's value is a reflection of its intrinsic worth, based on the stream of utility that will stem from its ownership. Much has been written on the wide array of potential underlying factors driving residential property prices, with the majority of the literature reliant on traditional hedonic price analysis. This uses transactional housing market data to extrapolate about individuals' preferences for certain dwelling features, amenities and neighbourhood characteristics based on the notion of revealed preferences. Indeed, within this framework a given area's crime rate or propensity to riot may be viewed as a disamenity, as they are perceived to be less safe or secure, which will negatively impact property valuations. The relatively unexplored responsiveness of these safety premiums incorporated in property prices to the sudden shocks of riots is a central motivation of this paper.

An insightful body of research highlights the influence of factors as diverse as air quality (Harrison & Rubinfeld, 1978), better access to transport facilities (Debrezion, Pels, & Rietveld, 2007) and school quality (Stephen Gibbons & Machin, 2008) on property prices. This would be pivotal in informing any attempt to isolate the influence of riots on housing prices. In particular, those centred on estimating the impact of crime (Troy & Grove, 2008), socioeconomic status (Galster, Tatian, & Smith, 1999) and ethnic composition (Harris, 1999) are particularly informative.

While understanding the determinants of residential property prices is imperative, there are other strands of literature to consider such as those concerning proxies for perceptions of neighbourhood desirability and safety. For example, DiPasquale & Glaeser (1999) present evidence on the positive effects of homeownership on local communities, citing the increased residential stability and greater incentives to invest in social capital and amenities as key channels. In the context of riots, this may suggest that neighbourhoods with high levels of owner-occupancy have a lower propensity to riot in light of the negative effects it would have on their locality.

Furthermore, the analysis presented in this paper has been motivated by an emerging strand of research studying the significant price premium commanded by property located within gated communities in the United States (LaCour-Little & Malpezzi, 2001; Le Goix & Vesselinov, 2013), reflecting, at least partially, the greater sense of security they provide. This offers a fascinating insight into the dynamics of fear, identity and other (often irrational) emotional responses that influence households' locational choices — sentiments which may be heightened in the wake of urban riots.

Conclusion

In summation, this paper has sought to highlight the pertinent interactions between urban riots and property markets, by drawing extensively upon the literature of urban economics — and specifically those strands relating to crime, riots and housing dynamics. It is abundantly clear that these violent urban phenomena are likely to set in motion a series of chain reactions that will reverberate into other dimensions of our society and economy, with property markets offering a prime example.

A comprehensive study of the effects of urban riots on housing markets may be of interest for several reasons. The primary one amongst them is that developing a more in-depth understanding of the dynamics between urban riots and housing markets is imperative for policymakers. Given the role of residential segregation in creating a riot-prone environment, policymakers seeking both to mitigate the negative consequences of riots and to design interventions to prevent them from occurring in the first place must understand these dynamics. If there is evidence to suggest people crave a greater sense of security following urban unrest, for example, state actors may tailor policies to better reassure residents of their commitment to guaranteeing public safety. This paper seeks to further expand our knowledge in this vital strand of urban economic literature.

While the groundwork has been diligently laid, with formative studies establishing the adverse effects of riots on proximate residential property (William J. Collins & Margo, 2007; William J Collins & Smith, 2007), many questions remain unanswered. If, as the literature would suggest, riots and their inherent social and economic consequences are regarded by economic actors in a similar manner as crime, then there are ample dynamics to be explored with the existing literature on crime serving as a template. In particular, future research may seek to explore the extent to which property price variation is driven by surging demand for greater security in the wake of riots and, indeed, whether these demand preferences are driven by individuals' perceptions of threats relative to a riot's actual severity.

The phenomenon of urban riots certainly merits further study. The urban setting certainly has the potential to represent the ideal space for social and economic interaction but, if it is to do so, threats to its communities must be addressed.

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