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Housing Markets with Endogenous Search: Theory and Implications

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In this model buyers and sellers enter a housing market with imperfect elasticity. Buyers screen houses for sale in two segments of the market, select a set of houses for search in each segment, and then control their intensities of costly search among houses in their preferred sets. Their truncated distributions of acceptable match values are assumed to be power law. Partial equilibrium is calculated explicitly and steady state is characterized analytically. The analysis is extended to multiple segments and markets. Empirical implications include higher average prices and price-rent ratios in preferred segments and markets, as well as spatial diffusion across segments and markets of average prices, price-rent ratios, and search. The predictions are consistent with existing empirical evidence.

Keywords: endogenous housing search, spatial diffusion, price-rent ratios.

JEL codes: D83, R21, R23, R31

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