

Title: Towards a Realist Theory of Market Sector Housing Production

Author: Richard Weston, The Nottingham Trent University

Abstract

Economics-focused housing research has concentrated predominantly on pricing, or more correctly on the determination of price. The assumption underlying these is the standard neo-classical economic supposition of price movements acting as signals to producers. Increases in price signal an increased profit opportunity that should be, in the standard analysis, followed by increases in production. The assumption being then, that if we are able to explain (or predict) price determination/movements then we are able to explain changes in production.

This research uses a 'critical realist' approach to develop a theory of housing production, which derives from an ontological perspective that sees the social world as open. This social reality is complexly structured, with constantly changing causal mechanisms underlying the phenomena being experienced or observed. This is contrasted with the closed system deductivist modelling followed by mainstream economics.

The research suggests that contrary to the neo-classical theory of supply house builders set the level of production with regard to the level of demand or expected demand rather than price signals. This is not surprising given the speculative nature of house building where construction typically starts six to nine months prior to the expected date of sale. New house prices are set relative to the prices of current stock, taking account of the relative attributes of the two goods. Changes in house prices do not affect the long-term profitability of house building as the price of residential land is determined as a residual of the costs of production.