

# **Effect of Shopping Areas on House Prices**

**Dr. M. van Duijn & S. Zhang, MSc.**

## **Background and motivation**

Attractive shopping areas have become an important neighborhood amenity to local housing markets. After World War II, building concentrated shopping areas became popular in most western countries. For consumers, these shopping areas serve as a place to consume a large variety of goods and services, and as a place to socialize. For retailers, shopping areas are clusters of retail outlets to maximize the shopping experience of their customers to maximize their own profits. Shopping behavior has been changing gradually due to online shopping. Internet technologies have made it possible to search, review and order goods and services more efficiently. This structural change in shopping behavior questions the importance of shopping as neighborhood amenity in the future. It is the topic of this paper to study the effect of shopping areas on house prices.

In the academic literature, there has been much attention paid to shopping areas in the fields of planning, consumer behavior, real estate economics and urban economics. Amongst others, Carter (2009) provides a broad overview on what we already know about shopping centers. However, there is still a lot that we do not know which is not highlighted in this paper. For example, there is not much known on the external effects of shopping areas. These external effects may be positive (consumption and recreation) or negative (noise, congestion, pollution and crime) and are likely to have an influence on the demand for housing, and, therefore, house prices. The literature on this topic focuses on the provision of shopping areas in relation to house prices. Most papers find positive external effects on house prices (e.g. Des Rosiers et al., 1996; Sirpal, 1994). While this literature is helpful in exploring the relationship between the provision of shopping areas and house prices, we doubt their empirical strategy as the existing literature basically ignores that shopping areas are most likely endogenous. Our aim is to revise the existing literature and to extend our knowledge on this.

## **Objective and methods**

Our paper aims at a better understanding of how nearby shopping areas impact house prices. We focus on whether redevelopment of old shopping centers will cause positive external effects by investigating the development of house prices in nearby residential areas. We use data from the Netherlands where we have detailed information on all shopping malls including data on shopping gross lease area. We also have detailed information on each of the stores in these shopping malls. We know which store has been

redeveloped and when this has been done. We combine these data with the housing transaction data of the Dutch Association of Real Estate Agents (NVM). This allows us to research the linkages of redevelopment of shopping areas on house prices. We use a difference-in-difference design by comparing quality-adjusted house prices in a predefined target and control area before the start, between the start and the completion and after the completion of the redevelopment. We also model the spatial and temporal dimensions of these external effects.

## References

- Bertrand, M., & Kramarz, F. (2002). Does Entry Regulation Hinder Job Creation? Evidence from the French Retail Industry. *Quarterly Journal of Economics*, 117(4), 1369-1413.
- Carter, C.C. (2009). What We Know About Shopping Centers. *Journal of Real Estate Literature*, 17(2), 165-180.
- Crawford, M. (1992). The World in a Shopping Mall. In M. Sorkin (Ed.), *Variations on a Theme Park* (3-31). The Noonday Press.
- Des Rosiers, F., Lagana, A., Thériault, M., & Beaudoin, M. (1996). Shopping Centres and House Values: An Empirical Investigation. *Journal of Property Valuation and Investment*, 14(4), 41-62.
- Sirpal, R. (1994). Empirical Modeling of the Relative Impacts of Various Sizes of Shopping Centres on the Value of Surrounding Residential Properties. *Journal of Real Estate Research*, 6(3), 357-379.