

How frequent and visible criminal violence affects housing prices: evidence from Mexico City (2007–2011)

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Abstract

Purpose – Between 2006 and 2012, Mexico implemented a “frontal war against organized crime”. This strategy increased criminal violence and triggered negative consequences across the country’s economic, political and social spheres. This study aims to analyse how the magnitude and visibility of criminal violence impact the housing market of Mexico City.

Design/methodology/approach – The authors used different violent proxies to measure the effect of the magnitude and visibility of violence in housing prices. The structure of the data set is an unbalanced panel with no conditions of strict exogeneity. To address endogeneity, the authors calculate the first differences to estimate an Arellano–Bond estimator and use the lags of the dependent variable to instrumentalise the endogenous variable.

Findings – Results suggest that the magnitude of violence negatively impacts housing prices. Similarly, housing prices are negatively affected the closer the property is to visible violence, measured through narcomessages placed next to the bodies of executed victims. Lastly, housing prices are not always affected when a violent event occurs nearby, specifically, when neighbours or potential buyers consider this event as sporadic violence.

Originality/value – There are only a few studies of violence in housing prices using data from developing countries, and most of these studies are conducted with aggregated data at the municipality or state level. The authors are using geocoded information, both violence events and housing prices, to estimate more disaggregated effects. Moreover, the authors used different proxies to measure different characteristics of violence (magnitude and visibility) to estimate the heterogeneous effects of violence on housing prices.

Keywords Mexico, Housing prices, Visibility, Magnitude, Criminal violence, Narcomessages

Paper type Research paper

List of abbreviations

BACRIM = Database of criminal presence in México;
CIDE = Centre for research and teaching in economics (Spanish acronym);
PPD = Drug policy programme (Spanish acronym);
ENVIPE = National victimisation and public security perception survey (Spanish acronym);
INEGI = National Institute of Statistic and Geography (Spanish acronym); and
2SLS = Two-stage least squares.

Introduction

To analyse Mexican social reality, we need to understand the context of violence. Since 2006, violence in Mexico has increased exponentially due to structural changes in the narco-trafficking business and in other illegal activities conducted by organised crime

