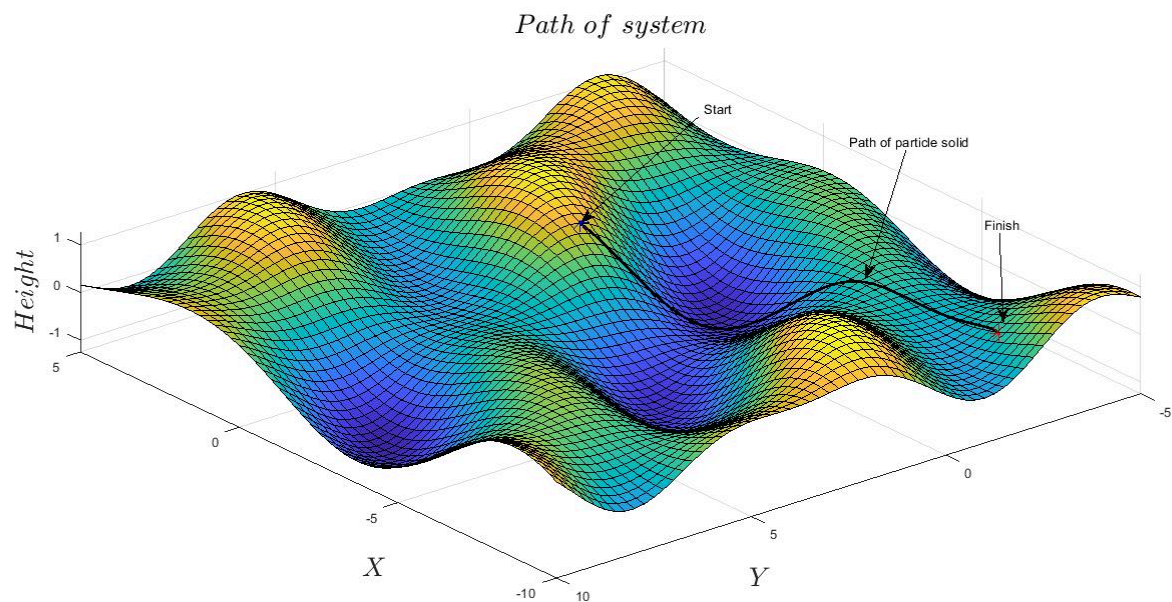


Draft Preprint

The Dissipative Structure of Value: Information Geometry and the Thermodynamics of NYC Real Estate

*On Modelling with Madelung Flow Regression
A Research Report*

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Abstract:

This work develops a non-parametric, information-geometric framework for modeling the dynamics of complex systems, motivated by analogies to quantum hydrodynamics among other fields of physics and machine learning. The goal in this is the construction of an empirical effective field theory capable of modeling almost any kind of dynamical system of somewhat stochastic nature. By utilizing continuous-time kernel density estimation and score-based geometric constructions, the framework infers probability flows and dissipative structures directly from high-dimensional data without assuming parametric functional forms. We introduce a principled, information-theoretic scale selection procedure that balances estimator variance against Fisher information, mirroring renormalization-group reasoning.

The physical formalism (e.g., flow, dissipation, uncertainty) is employed as an interpretive analogy to characterize the informational topology of the system rather than as a claim of literal physical laws. The resulting framework is an effective, representation-dependent model that evolves with data resolution. As this represents an ongoing effort to bridge physical formalism with economic data science, the current nomenclature and interpretive framework are subject to iterative refinement.

Applied to U.S. housing market data, the framework identifies three distinct structural regularities: a characteristic temporal coherence scale, a robust informational constraint analogous to uncertainty relations in stochastic systems, and a dissipative component of inferred dynamics associated with structural maintenance. This application serves as an example of how quantum-inspired algorithmic frameworks can recover dynamically meaningful structure in complex, non-equilibrium datasets. *Git hub repository can be found near the bottom of this report.*

Introduction:

In August 2025 David Krakauer, president of the Santa Fe Institute, the world's leading research center on the study of complex systems said this on Neil deGrasse Tyson's *Star Talk* podcast:

"Warren Weaver, who was a mathematician, wanted to classify all of regularity or irregularity in the universe. He said there are simple phenomena; classical physics. It doesn't mean it's easy to understand, but it's simple. There are beautiful laws, elegant mathematical formalisms that explain it.

Then there's the world of what he called disorganized complexity. That's the study of gases, what we would now study with thermodynamics and statistical mechanics; irregular things that have beautiful descriptions.

And then in the middle, there's organized complexity. It's not a gas. It's an organism. It's an ant. It's a brain. It's a city. And in that space, what we realized really at the end of the 19th century is that we don't have good theories for it. We can do irregularity beautifully. We can do simplicity beautifully. But then you move to everything that we actually care about, in some sense as human beings, as animals, as living beings, and we kind of under-theorize it."

In many ways this describes my line of inquiry, the broad understanding of complexity through a novel framework descended from information theory, information geometry, thermodynamics, econometrics, and quantum hydrodynamics. Information theory, having originated from Claude Shannon, is the field of mathematics of quantifying information itself as a measurable physical quantity, at its core seeking to answer; "How much "surprise" or "uncertainty" is contained in a signal, and how efficiently can we encode it?". Information Geometry is the study of probability distributions as physical shapes, a fusion between differential geometry (the calculus of curved spaces, called manifolds, that look flat when zoomed in on, like the Earth) and statistics. Thermodynamics being the study of energy and entropy. Econometrics as

the general science of causal modelling through hypothesis testing and regressions. Quantum mechanics models the microscopic world of particles as waves of probability rather than discrete points, breaking the traditional determinism of classical physics. Core to this is Schrodinger's equation describing particles as wave packets through complex numbers. Erwin Madelung in 1926, the same year Schrodinger published his equation, released a version of it rewritten in hydrodynamic variables, effectively describing the quantum world as a flowing probability fluid rather than Schrodinger's amorphous and hard to conceive complex valued wave packets. My work combines these fields, often siloed into one continuous field-like theory, fields being a mathematical object that encodes mathematical properties over a space/manifold. When applied to economic data, it constitutes a new theory of the economy based on these principles. 2025 marks the 100th anniversary of the study of quantum mechanics. It excites me to present contributions related to this that can be applied to macro phenomena.

The Data:

To establish a comprehensive dataset of New York City property transactions, I developed a custom automated web crawler to harvest historical Rolling Sales data directly from the NYC Department of Finance (Link: [Rolling Sales Data](#)). The script utilized a "shotgun" request pattern to handle inconsistent URL structures and file formats (both .xls and .xlsx) across the target period of 2015 to the end of 2024. This process iteratively retrieved annualized sales files for all five boroughs, standardizing them into a unified structure despite varying header formats over the decade.

Once acquired, I subjected the raw data to a rigorous cleaning and harmonization pipeline to ensure the integrity of the thermodynamic variables. Non-numeric characters such as currency symbols and commas were stripped from the Price, BuildingArea, and LandArea fields, which I then coerced into numeric types. To isolate genuine market activity from non-arms-length transfers, such as familial deed transfers or administrative corrections, I applied a strict filter excluding records with a sale price below \$1,000 or a gross building area under 100 square feet. I subsequently concatenated the cleaned extracts into a single master dataframe, `nyc_real_estate_history(all).csv`, providing a continuous and granular field of valid market transactions for the subsequent geometric analysis. The data set was also adjusted for inflation (September 2025 dollars).

The Madelung Object Model

The cornerstone of this analysis is what I term the "Madelung object," a continuous-time kernel density estimator (KDE) that constructs a smooth, differentiable probability field over the space of log-price, log-building-size, and time. The naming reflects the mathematical utility of this object: just as Erwin Madelung reformulated the Schrödinger equation into hydrodynamic variables, expressing quantum mechanics as a probability fluid, this estimator reframes market dynamics as a fluid of transaction probability. The density ρ represents market liquidity, while its evolution encodes the changing preferences and "drift" of market actors.

Formalism of the Spatio-Temporal Field

Mathematically, the engine treats the market as a manifold where the density of transactions is governed by the local geometry of information. For any query time T , the algorithm estimates the joint probability density $\rho(\mathbf{x}, T)$ of observing a transaction at spatial coordinates $\mathbf{x} = (x, y)$. This is not a static histogram, but a temporally weighted estimation using a Product Kernel:

$$\rho(\mathbf{x}, T) = \frac{\sum_{i=1}^n w_i(T) \cdot \mathcal{K}_{\mathbf{H}}(\mathbf{x} - \mathbf{x}_i)}{\sum_{j=1}^n w_j(T)}$$

The Temporal Weighting (Strict Causal Constraint):

The weights $w_i(T)$ are defined by a Gaussian kernel with bandwidth σ_t . Crucially, I have implemented a Strict Causal Constraint to ensure the model respects the arrow of time for predictive analysis:

$$w_i(T) = \begin{cases} \exp\left(-\frac{(T-t_i)^2}{2\sigma_t^2}\right) & \text{if } t_i \leq T \\ 0 & \text{if } t_i > T \end{cases}$$

This makes the engine a recursive non-parametric filter. Information is only permitted to flow from the past into the present, allowing the probability distribution to evolve smoothly; "flowing" from one market regime to another without the jitter and look-ahead bias of discrete windowing.

Adaptive Geometry and the Information Metric:

The engine does not assume a Euclidean space. Instead, it calculates a Weighted Covariance Matrix Σ_T from the active historical subset to define the "shape" of market value at time T . This covariance is scaled into a bandwidth matrix \mathbf{H} using the effective sample size ($N_{eff} = 1 / \sum \tilde{w}_i^2$) via an adaptive scaling factor:

$$\mathbf{H} = \Sigma_T \cdot N_{eff}^{-1/6}$$

This ensures the manifold contracts in high-liquidity regimes to capture fine-grained structure and expands in low-liquidity regimes to prevent the "evaporation" of the fluid into stochastic noise. Based on my optimization of the Cramér-Rao bound, I identify a bandwidth of $\sigma_t \geq 52$ days as the Informational Equilibrium; the minimum scale where the structural signal of the NYC market overcomes the noise of individual transactions.

Analytical Kinematics and the Velocity Field:

Because the KDE is built from Gaussian basis functions, we can calculate its derivatives analytically rather than numerically. The implementation explicitly computes the spatial gradients ($\nabla \rho$) and the time derivative ($\partial_t \rho$) at every point in the grid. From these, we derive the Madelung Velocity (\mathbf{v}), which represents the systematic score function or "drift" of the market potential:

$$\mathbf{v}(\mathbf{x}, T) = \nabla \ln \rho = \frac{\nabla \rho(\mathbf{x}, T)}{\rho(\mathbf{x}, T)}$$

It is important to note this inversion identifies an effective drift-diffusion pair up to estimator resolution; uniqueness is understood in the information-geometric, not microscopic, sense. The evolutionary field ($\dot{\rho}$) measures the rate of informational flux entering or leaving a point in price-space. By calculating these analytically, the engine maintains the high precision required to derive the Fisher Information Metric (g_{ij}), which defines the true distance between market states.

The Dissipative Continuity Equation (Fokker-Planck Inversion):

These raw kinematic variables allow us to invert the Fokker-Planck equation, bridging the gap between quantum-hydrodynamic-like flow and thermodynamic-like dissipation:

$$\frac{\partial \rho}{\partial t} + \nabla \cdot (\rho \mathbf{v}) = \mathcal{S}(\mathbf{x}, T)$$

In this formulation, \mathcal{S} represents the Dissipative Source Term (or "Market Heat"). Instead of assuming a model and simulating forward, we take the observed ρ and its derivatives as the ground truth. We solve this equation to extract the hidden dynamic variables: the drift velocity (\mathbf{v}) captures systematic market behavior, how prices adjust and building heterogeneity evolves, while the diffusion (represented within the residual \mathcal{S}) quantifies market friction and microstructure uncertainty.

The elegance of this formulation is that it requires no traditional assumptions about demand curves, equilibrium conditions, or behavioral hypotheses. It describes what the market *actually does* through its revealed transaction pattern, letting the data speak through its own geometric structure.

Assumptions

To treat the New York City real estate market as a Madelung fluid, the model rests on three core statistical assumptions:

Continuum Approximation: While transaction data is discrete, the market state can be represented as a continuous manifold ρ given a sufficient sampling density σ_t .

Local Analyticity: Market transitions are sufficiently smooth at the chosen bandwidth to permit analytical differentiation.

Informational Sufficiency: The chosen state-space dimensions, log-price (y) and log-building-size (x), capture the essential degrees of freedom required to describe the system's "Value Potential."

Computational Implementation

To make this mathematically tractable over a dataset of this magnitude, I developed two parallel implementations of the estimator:

CPU Implementation (NumPy/SciPy):

For smaller subsets or rapid prototyping, this version utilizes `scipy.stats.gaussian_kde` with custom temporal weighting. It leverages standard linear algebra libraries to compute covariance matrices and handle the weighted kernel summation efficiently.

GPU Acceleration (PyTorch):

To analyze the full high-resolution field (100×100 spatial grids over 3,650 days), the computational cost of evaluating Gaussian kernels scales quadratically ($N_{grid} \times N_{data}$). I implemented a hardware-accelerated version using PyTorch that treats the KDE summation as a massive tensor operation. This allows the pairwise distance computations and exponentiations to be broadcast across thousands of CUDA cores simultaneously, reducing the computation time for the full 10-year "Madelung object" generation from hours to minutes.

For reference all of the computation times in this research are manageable without GPU assistance, with the exception of the bandwidth optimization that I am about to cover. The GPU assistance was specifically added because that calculation would take hours, maybe even more than a day to complete with the CPU alone.

On Eliminating Look-Ahead Bias, The Causal Kernel

A critical structural refinement was necessary to ensure the validity of predictive experiments. The standard Continuous-Time KDE utilizes a symmetric Gaussian kernel in the temporal dimension, which effectively smooths the manifold for geometric visualization by weighting contributions from both past and future transactions. While this bidirectional smoothing is ideal for mapping the static structure of the market phase space and descriptive analysis of dynamics, it introduces a fatal look-ahead bias for predictive analysis. If the density estimate at a given time includes information from future price shocks, the resulting metrics would implicitly contain the very signal they purport to predict, rendering any causality tests invalid.

To resolve this, the Madelung object was re-engineered to support a strict causal mode for the time-series analysis. This adaptation forces the estimator to respect the arrow of time by reconstructing the probability density at any historical date using only the transaction data available up to that specific moment. This distinction allows us to retain the high-fidelity geometric visualizations for structural analysis while guaranteeing the integrity of the econometric validation.

Bandwidth Optimization

The central challenge in constructing a continuous-time probability field is determining the optimal temporal bandwidth (σ_t). This parameter effectively sets the "shutter speed" of the observation. If σ_t is too short, the model captures transient microstructure noise (high variance); if too long, it oversmooths the rapid phase transitions characteristic of market regime shifts (high bias). Note that because the underlying price data was already inflation-adjusted, this smoothing concern pertains to structural volatility rather than monetary inflation itself.

To rigorously select this parameter, I developed an optimization framework rooted in Information Geometry. Rather than relying on heuristic rules of thumb, I sought the bandwidth that maximized the structural resolution of the phase space, specifically, the clarity of the relationship between Market Liquidity (ρ) and Kinematic Volatility ($|\mathbf{v}|$).

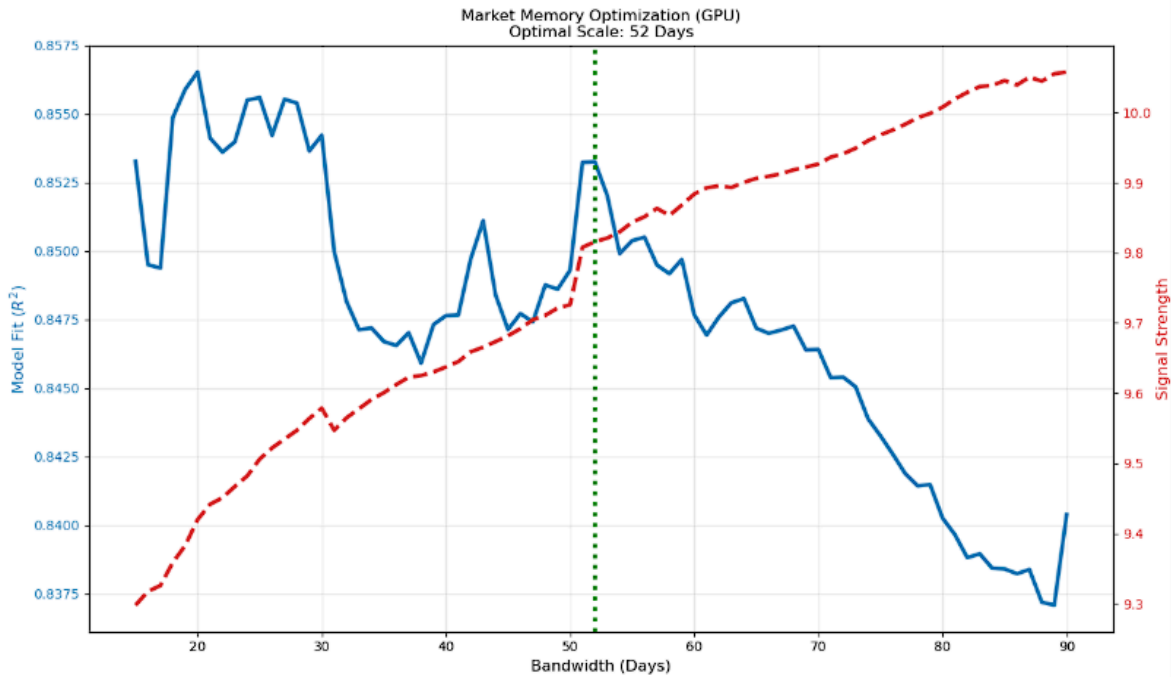
The "Frontier Extraction" Method

I implemented a GPU-accelerated sweep across a bandwidth spectrum of 15 to 90 days. For each candidate σ_t , I generated the full 4-dimensional phase space and extracted the "Constraint Frontier", defined as the 99th percentile of velocity magnitude within each density bin.

The logic of this optimization rests on the Cramér-Rao lower bound (from information geometry) and offers a direct economic analogue to Heisenberg's Uncertainty Principle. In quantum mechanics, one cannot simultaneously know a particle's position and momentum with infinite precision ($\Delta x \Delta p \geq \hbar/2$). Similarly, in market dynamics, we face a fundamental trade-off: as we narrow the temporal window ($\Delta t \rightarrow 0$) to capture instantaneous velocity ("momentum"), the statistical sample vanishes, and the uncertainty in the density manifold ("position") explodes. Conversely, expanding the window minimizes statistical error but blurs the velocity vector, losing the signal of the regime shift. By maximizing the clarity of the velocity-density frontier, I am effectively finding the "minimum uncertainty state" for this economic system, the scale where the trade-off between temporal resolution and statistical precision is optimized.

The optimization utilized a composite objective function:

$$\text{Score} = \text{Normalized}(R^2) + \text{Normalized}(\text{Signal Strength})$$

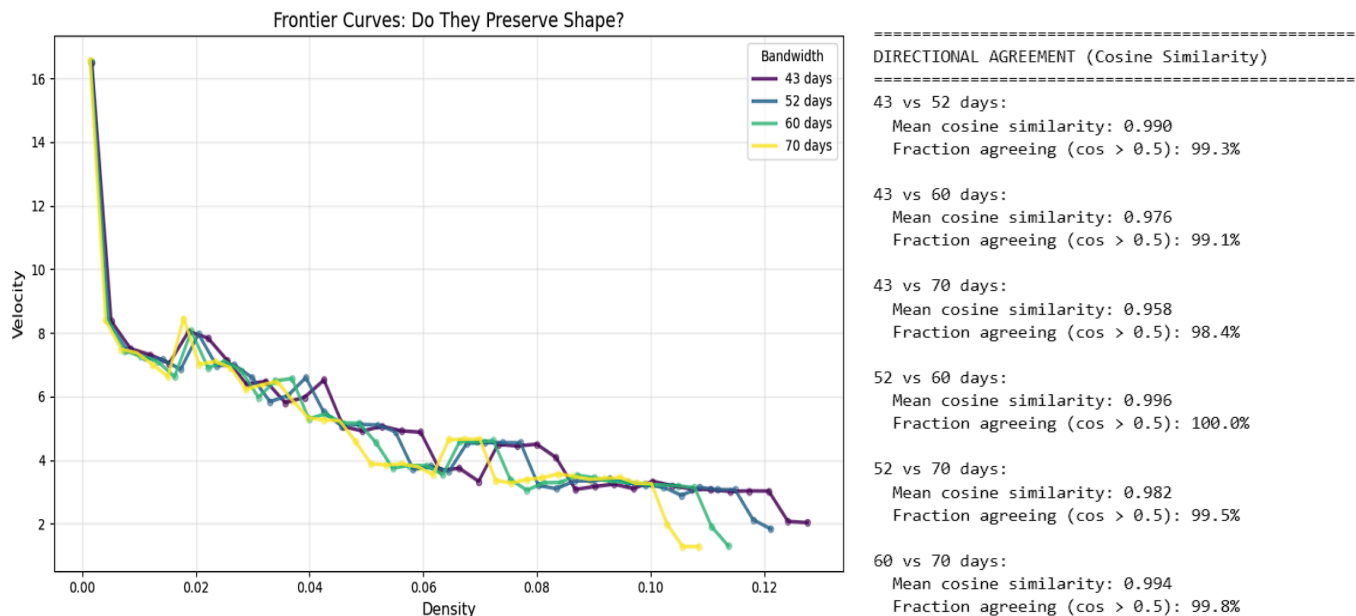


Here, R^2 measures how well the frontier fits a theoretical exponential decay model (validating that the observed structure obeys thermodynamic constraints), while "Signal Strength" measures the raw magnitude of the detected velocity. The algorithm converged convexly on a global optimum of **52 Days**. This value represents the information-theoretic coherence time of the NYC housing market. In other words the average shelf-life of price information; the duration for which a single transaction remains a valid signal for other buyers before fading into 'stale' historical noise. This likely corresponds to contract close latency.

Robustness and Invariance Checks

To ensure that this 52-day scale reflected a genuine property of the market rather than an artifact of the estimator, I performed a "Directional Consistency" test. I generated independent vector fields using bandwidths of 43, 52, 60, and 70 days and calculated the Cosine Similarity of the resulting drift vectors \mathbf{v} at every point in the spatial grid (50×50).

The results demonstrated extraordinary geometric invariance:



The fact that the vector fields remain directionally locked (mean cosine similarities all exceed 0.95) despite significant changes in bandwidth confirms that the "Madelung Flow" represents a robust, invariant geometric feature of the dataset. The 52-day optimization does not "create" the pattern; it simply brings an existing, invariant geometric structure into maximum focus. This exercise beautifully highlights the parallels between the Cramer-Rao Bound, Heisenberg's Uncertainty, and the bias-variance trade off.

The Heisenberg Limits of Real Estate

Having calibrated the thermodynamic instrument, I turned to the analysis of the phase space itself. The Madelung object provides two scalar fields at every coordinate (p, s) in the market:

Market Certainty (Z): The probability density, representing the consensus on value. High density indicates a "crowded" trade where buyers and sellers agree on price.

Liquidity Velocity ($|\mathbf{v}|$): The magnitude of the drift vector, representing the speed of price discovery or the "momentum" of the asset class.

The Uncertainty Principle of Markets

When visualizing these two variables against each other for any given date, a striking geometric constraint emerges as the economic analogue to Heisenberg's Uncertainty Principle. In quantum mechanics, the precision of position and momentum are inversely related ($\sigma_x \sigma_p \geq \frac{\hbar}{2}$). In the NYC real estate market, we observe a similar fundamental trade-off between Consensus and Velocity.

The Attractor State: Regions of high density (high certainty) effectively "trap" prices. When market participants broadly agree on a value, the "mass" of the consensus creates inertia, preventing rapid price movement.

The Rapid State: Conversely, high velocity is only permissible in regions of low density (low certainty). Rapid price discovery requires a lack of established consensus.

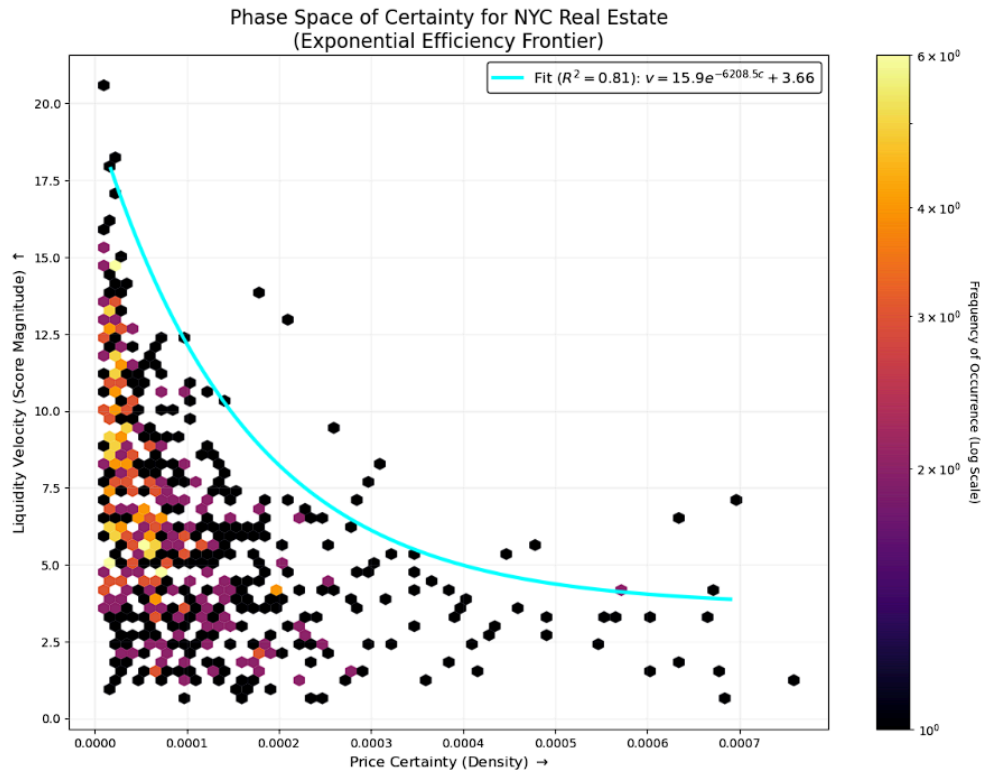
This is not merely a correlation; it is a "forbidden zone" geometry. While outliers exist, the vast majority of transactions adhere to a characteristic efficiency frontier. Beyond this curve, the system exhibits an empirical kinematic limit on its velocity given the weight of the consensus.

The Aggregated Efficiency Frontier

To quantify this limit, I aggregated the phase space data across 40 timestamps (spanning 2015–2024), effectively "superpositioning" the market's history to outline the empirical hard edge of the distribution. I extracted the 99th percentile of velocity within each density bin and fitted an exponential decay model to this frontier:

$$v_{max} = A \cdot e^{-B \cdot Z} + D$$

The global fit yielded a robust coefficient of determination ($R^2 = 0.8125$), suggesting that this trade-off represents a persistent structural regularity within the market's informational manifold, rather than transient stochastic noise.



Global Frontier Metrics:

- **Equation:** $v = 15.87 \cdot e^{-6208.47 \cdot Z} + 3.66$
- **RMSE:** 1.8369

This equation implies a "terminal velocity" for real estate. Even in the most illiquid, chaotic corners of the market (where $Z \rightarrow 0$), the speed of price change is capped at approximately **19.5 units**. Conversely, as consensus forms (Z increases), the maximum possible velocity decays exponentially toward a friction floor of 3.66.

Temporal Stability and Parametric Drift

To test the invariance of this, I analyzed the frontier during distinct macroeconomic regimes. While the functional form (exponential decay) remained robust, the specific parameters exhibited a measurable "wobble," reflecting the changing rigidity of the market.

Period A: Pre-Pandemic Stability (2017–2018)

- **Equation:** $v = 16.05 \cdot e^{-23462.00 \cdot Z} + 3.48$
- **Max Speed:** ~19.53
- **Decay:** -23,462

Period B: Pandemic Shock (2020–2021)

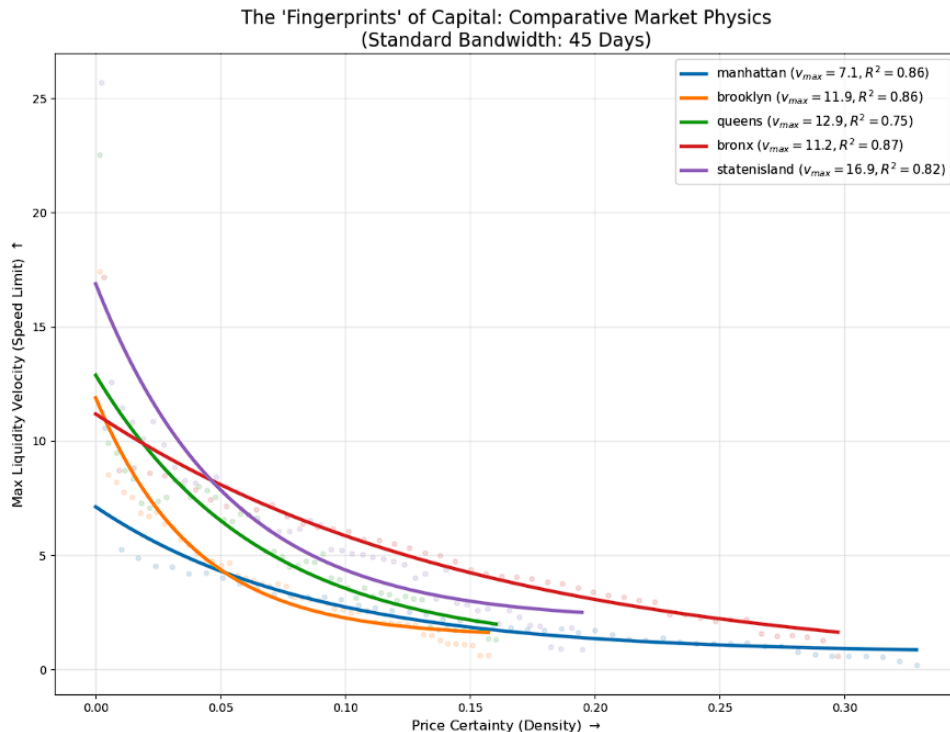
- **Equation:** $v = 11.09 \cdot e^{-8048.87 \cdot Z} + 4.10$
- **Max Speed:** ~15.19
- **Decay:** -8,049

This comparison reveals a fascinating physical transformation. During the stable period (2017–2018), the market was "stiff": the decay coefficient was massive (-23,462), meaning velocity evaporated almost instantly the moment consensus began to form. During the pandemic (2020–2021), the market became "mushier." The maximum speed dropped to 15.19, but the decay was far shallower (-8,049), suggesting that even as consensus formed, higher volatility persisted longer than usual. This parametric drift suggests that while the functional form of the constraint is robust, its scale is context-dependent. Unlike the fixed Planck constant of quantum mechanics, the market's 'minimum unit of action' is a dynamic variable, expanding and contracting with the macroeconomic temperature.

The Fingerprints of Capital: Borough Analysis

While the geometric profile of this trade-off likely remains consistent across different datasets, the specific parameters exhibit geographical variance. By isolating the dataset by borough and fitting the same Heisenberg frontier to each, I extracted the distinct "physical constants" of these sub-markets.

- **Max Speed ($A + D$):** The theoretical speed limit of the market in a vacuum (zero consensus).
- **Fragility (Decay B):** How quickly liquidity freezes as consensus forms. High fragility means the market calcifies rapidly.
- **Friction (D):** The base level of resistance that persists even at high velocity.



BOROUGH	MAX SPEED	FRAGILITY (Decay)	FRICTION (Floor)	R ²
manhattan	7.11	11.6	0.71	0.861
brooklyn	11.89	25.4	1.42	0.860
queens	12.88	15.2	0.95	0.752
bronx	11.18	6.5	0.00	0.869
statenislnd	16.88	18.9	2.12	0.819

Manhattan: The Heavy Fluid (High Inertia)

Manhattan acts as a heavy fluid with the lowest Max Speed (7.11), indicating extreme inertial mass due to capital density. Even in a vacuum of consensus, the sheer value of assets creates a viscosity that physically prevents rapid acceleration. It appears stable not through efficiency, but through the immense energy required to move prices in either direction.

Brooklyn: The "Snap-Freeze" Phase Transition

Defined by extreme Fragility (25.4), Brooklyn mimics a system prone to instantaneous phase transitions where liquidity collapses the moment consensus forms. This "snap-freeze" behavior reflects a market driven by intense trend following. Unlike the gradual cooling of other boroughs, it locks into rigid price structures immediately upon establishing a baseline.

The Bronx: The Frictionless Anomaly

The Bronx behaves like a superconductor with a unique Friction Floor of 0.00 and the lowest Fragility (6.5). This laminar flow allows momentum to persist longer than anywhere else before settling into a perfect standstill. It stands as the most thermodynamically efficient borough where consensus does not impede flow as drastically as in capital-dense regions.

Staten Island: High-Energy Chaos

As the energetic opposite of Manhattan, Staten Island acts as a "light" fluid capable of explosive price discovery ($v_{max} = 16.88$). However, this comes with high Friction (2.12), reflecting a market of "wares" (unique single-family homes) rather than "shares" (fungible condos). This asset heterogeneity generates irreducible thermal noise, ensuring that even under consensus, the thermodynamic temperature never reaches absolute zero.

Queens: The Hybrid State

Queens presents the lowest goodness-of-fit ($R^2 = 0.752$) because it does not behave as a single thermodynamic material. It likely represents a superposition of two distinct phases of matter, mixing high-density urban centers like Long Island City with vast suburban tracts. This duality muddies the geometric signal, creating a hybrid profile with moderate speed and fragility.

Configurational Entropy:

The Heisenberg analysis in the previous section quantified the kinematics of the boroughs; how fast prices move under varying degrees of consensus. However, to fully understand the material properties of these sub-markets, I also needed to quantify their static structure. To do this, I calculated the Shannon Entropy (S) of the probability density field for each borough. This metric serves as a proxy for Configurational Entropy, measuring the diversity and disorder of the housing stock itself.

Methodology

I utilized the same continuous-time KDE model to generate a probability density surface $\rho(x, y)$ for each borough. To ensure thermodynamic consistency and comparability across regions, I evaluated every borough on the Universal Phase Space grid defined in the global analysis.

The continuous density field was discretized into a probability mass function $P(x_i, y_j)$ such that $\sum P = 1$. The structural entropy was then calculated using the standard Shannon formulation:

$$S = - \sum_{i,j} P(x_i, y_j) \ln P(x_i, y_j)$$

A high entropy value indicates a "disordered" market occupying a vast region of the phase space (e.g., a mix of micro-studios, luxury penthouses, and brownstones). A low entropy value indicates a "crystalline" market, where transactions are tightly clustered around a specific asset type (e.g., standardized single-family homes). The analysis revealed a stark hierarchy of disorder across the city. Manhattan exists in a state of extreme entropic disarray, while Staten Island represents a highly ordered lattice.

Configurational Entropy by Borough:

	Borough	Entropy (S)	Peak Density
0	manhattan	5.656414	0.177895
1	brooklyn	4.364269	0.631871
2	bronx	4.002923	1.146864
3	queens	3.760683	1.016924
4	statenisland	3.544893	1.238102

This structural data provides the critical context needed to interpret the Heisenberg results. It resolves the apparent paradox of why Manhattan (High Entropy) moves slowly, while Staten Island (Low Entropy) moves fast.

Manhattan (The Viscous Glass): Manhattan combines high structural disorder ($S = 5.66$) with high inertia. Physically, this describes a Viscous Glass. Like a glass, it lacks a defined crystalline structure (diverse assets), but its viscosity prevents it from flowing freely. It is frozen by its own complexity.

Staten Island (The Hot Crystal): Staten Island combines high structural order ($S = 3.54$) with high kinetic velocity. Physically, this describes a Hot Crystal. The lattice is uniform (standardized housing stock), but the individual particles are vibrating violently (high price volatility).

The Bronx (The Superfluid): The Bronx exhibits the ordered structure of a crystal ($S = 4.00$) but the flow of a superfluid (0.00 friction). This suggests a Laminar Flow regime where standardization allows for frictionless price discovery.

Brooklyn (The Supercooled Liquid): Brooklyn sits in the middle of the entropy spectrum ($S = 4.36$) but has the highest Fragility (25.4). It behaves like a Supercooled Liquid, a state that is technically fluid but prone to "snap-freezing" into a rigid solid structure the moment a trend appears. The moderate asset diversity allows for both fluid price discovery and sudden rigid consensus.

Queens (The Polycrystalline Hybrid): Queens remains the anomaly with the lowest goodness-of-fit ($R^2 = 0.75$). Its low entropy ($S = 3.76$) suggests order, but its mechanics are inconsistent. It likely behaves as a Polycrystalline Solid, a material composed of many small, distinct ordered domains (e.g., rigid Long Island City condos vs. fluid Jamaica estates) that do not align along a single thermodynamic grain, scattering the geometric signal.

Visualization of the Probability Field

With the mathematical framework established and calibrated, the next step of the pipeline involves rendering the Madelung Object $M(x)$ into a human-interpretable format. I developed a suite of visualization scripts using Plotly (for interactive HTML exploration) and Matplotlib (for high-resolution GIFs) to map the evolution of the probability fluid over the decade.

The Flowing Market (4D Surface Animation)

The primary visualization renders the scalar field $\rho(p, s, t)$ as a dynamic 3D surface, effectively visualizing the real-time flows of liquidity through the market.

Grid Construction: I defined a 50×50 mesh grid spanning the log-space of Building Area (X) and Price Per Square Foot (Y).

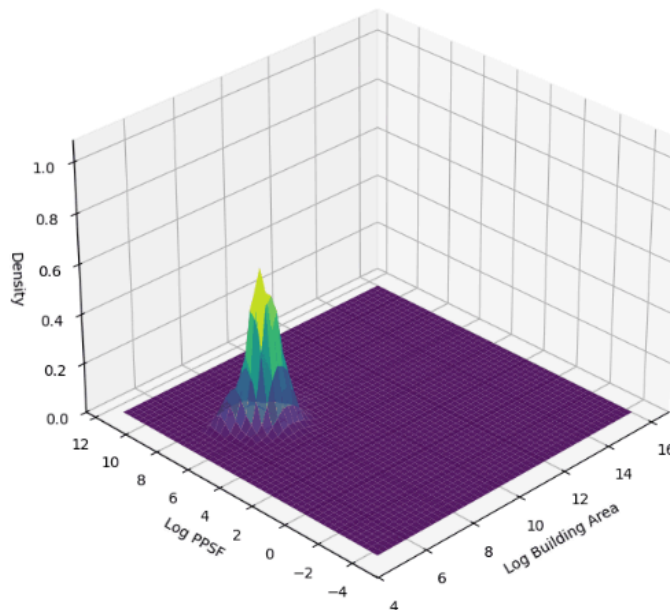
Time-Stepping: The script iterates through the dataset in 14-day increments. For each time step, the 'ContinuousTimeKDE' object (tuned to $\sigma_t = 52$ days) calculates the density Z at every grid point using the weighted Gaussian summation.

Rendering: The Z-axis represents Market Consensus (Transaction Density).

Peaks (High Z): Correspond to "Attractor" prices, regions of high liquidity where the volume of transactions is dense. These are the "popular" trades (e.g., standard condos in mid-tier neighborhoods).

Valleys (Low Z): Represent illiquid or forbidden zones where capital rarely flows.

Motion: As the animation plays, we see the probability mass "slosh" and migrate. This visualization directly confirms the "Parametric Drift", showing the market physically expanding and contracting; showing the flows of liquidity throughout the market over time.

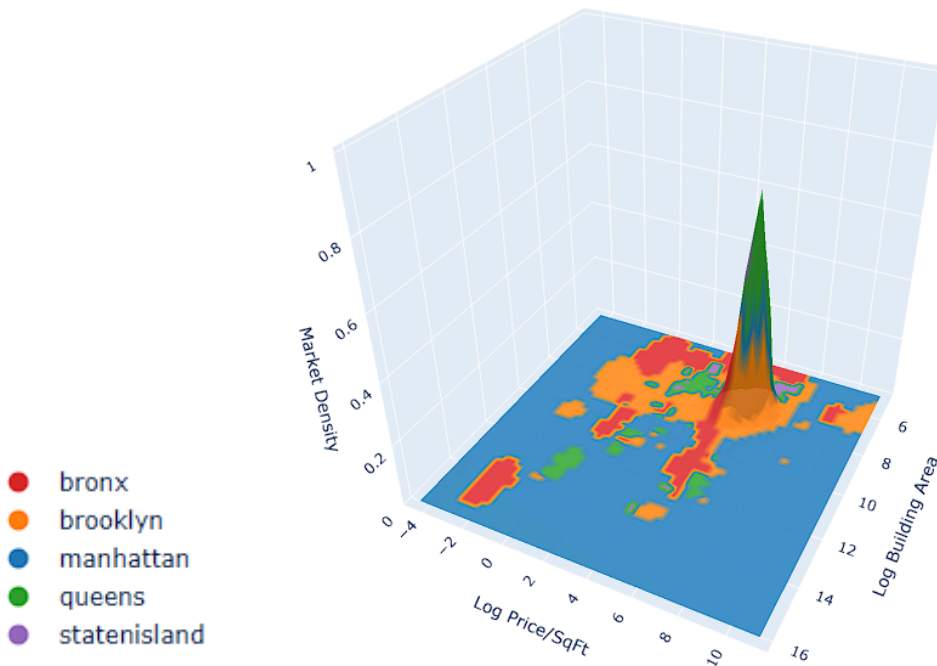


Borough Territories (Multi-Class Topology)

To visualize the structural heterogeneity, I implemented a Multi-Class KDE engine. This script creates a topological map of "Borough Dominance," showing which geographic sub-market controls which region of the price/size phase space.

- The Global Manifold: First, the script calculates a global density surface Z_{total} using all transactions, regardless of location. This defines the overall shape of the liquidity mountain range.
- The Winner-Takes-All Color Map: For every point on that grid, the script calculates the localized density of each individual borough. It then applies a `np.argmax` function to determine which borough possesses the highest probability density at that specific price/size coordinate.
- Surface Mapping: The visual output plots the global Z surface but colors the surface of the manifold based on the dominant borough.

The result is a 3D territorial map. We can see how all boroughs share the and swap pieces of the peak, with Manhattan dominating the areas outside of it with low transaction occurrence, confirming the high entropy measured in that borough earlier.



The Visualization of Forces

While the probability density ρ tells us where the market is, it is the hydrodynamic derivative fields that tell us what the market is doing. In the Madelung picture, the evolution of the market is governed by a continuity equation:

$$\frac{\partial \rho}{\partial t} + \nabla \cdot (\rho \mathbf{v}) = 0$$

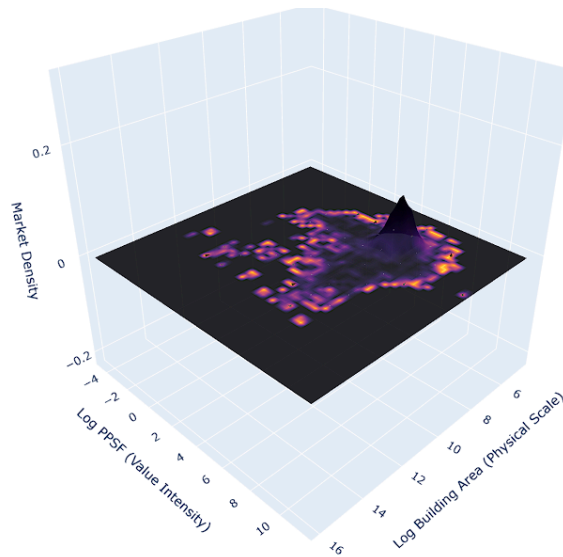
Here, the velocity field $\mathbf{v} = \nabla \log \rho$ represents the "drift" of the probability mass. I developed a series of visualizations to isolate and interpret the specific components of this drift.

The Metric Instability Field ($|\mathbf{v}|^2$)

The first derived quantity is the squared magnitude of the velocity vector, $|\mathbf{v}|^2$. In information geometry, this is proportional to the trace of the Spatial Fisher Information Metric. Think of Fisher Information as reaching into a bag of mixed marbles: if the mix is 50/50, pulling out a red marble tells you very little (low information, flat gradient); but if the bag is 99% blue, finding a red marble is a massive signal (high information, steep gradient). Unlike traditional FIM, which measures how sensitive the data is to hidden *parameters* (the mix ratio), the Spatial FIM measures how sensitive the probability is to location, specifically, how rapidly the market regime shifts as you move through price/size space. Because our velocity vector is defined as the gradient of the log-density ($\mathbf{v} = \nabla \log \rho$), squaring this vector ($|\mathbf{v}|^2$) naturally recovers the Fisher Information metric, confirming that 'speed' in this model is literally the speed of information update.

Code Implementation: I calculated the analytic derivatives U and V from the KDE and computed their squared sum at every grid point. To ensure visual clarity, I clipped the values at the 98th percentile; without this, a single extreme outlier (a massive price jump) would "wash out" the color scale, hiding the structural details of the rest of the market.

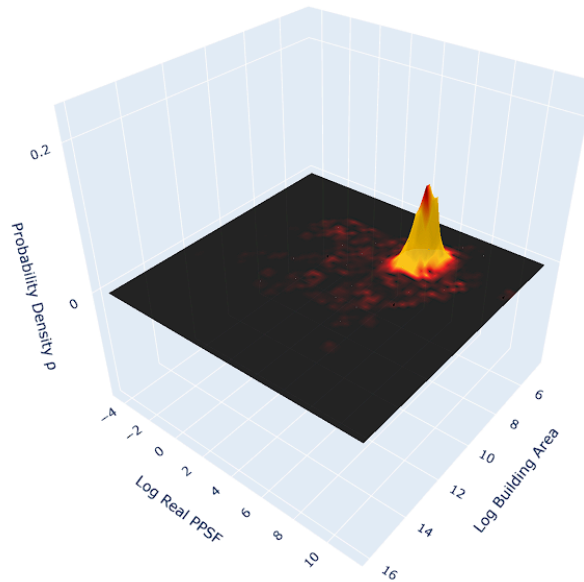
Physical Interpretation: I termed this quantity "Metric Instability." It measures the local speed of the log-likelihood surface. Regions with high instability are zones of Rapid Information Update. Mathematically, these are areas where small perturbations in position result in massive changes in probability; effectively, the "event horizons" of price discovery.



Information Kinetic Energy Density ($\rho|\mathbf{v}|^2$)

While Metric Instability tells us where the potential for movement is high, it does not tell us where the economic work is actually being done. For that, we need the Information Kinetic Energy Density, calculated by weighting the instability by the probability density or "mass" of the market. This quantity has a direct antecedent in quantum chemistry: von Weizsäcker's (1935) kinetic energy functional for electron densities, $T_W \propto \int |\nabla \rho|^2 / \rho$, which was later recognized as mathematically equivalent to the Fisher Information (Nalewajski, 2003). Probability plays a role analogous to energy as a conserved accounting quantity governing admissible transformations. This quantity is not interpreted as physical energy, but as a geometric diagnostic of information flow intensity.

$$K(x) = \rho(x)|\mathbf{v}(x)|^2$$



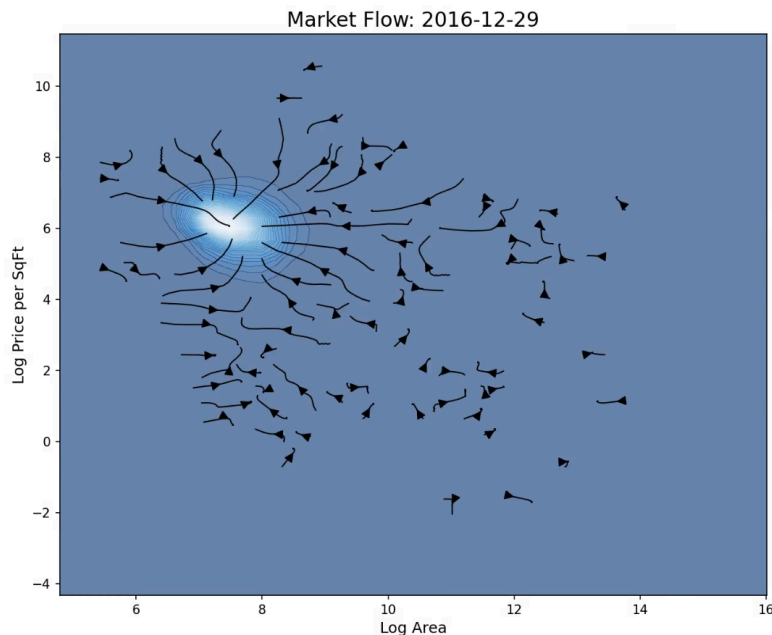
The visualization revealed a fascinating structural phenomenon; a ring of fire.

The Core (Pale Peak): The absolute center of the density mountain (high ρ) actually has low kinetic energy. This is the "dead center" of consensus; transactions are frequent, but they occur at a stable, agreed-upon price.

The Periphery (Dark): The far edges have high velocity (instability) but zero density. No work is done here because there are no transactions to carry the energy.

The Shoulder (Bright Ring): The Kinetic Energy peaks in a distinct ring surrounding the core. This is the Active Transport Zone. It is the boundary where substantial transaction volume meets substantial price disagreement. This visualization confirms that the "thermodynamic work" of the market, the actual effort of price discovery, occurs not at the stable center, but at the negotiating fringe.

Streamlines of the Spatial FIM



To visualize the directionality of these forces, I mapped the gradient field $\nabla \log \rho$ using 2D streamlines.

Code Implementation: Using `matplotlib.streamplot`, I integrated the velocity vectors (U, V) to trace the "currents" of the probability fluid.

Geometric Interpretation: They show the natural "downhill" paths of the market. In a perfectly efficient market, these lines would converge radially on the attractor. In the NYC data, however, we see distinct vortices and "shear zones" where the flow of capital is turbulent, particularly in the transition zones between boroughs (e.g., the boundary between high-end Brooklyn and low-end Manhattan).

The Quantum Potential as Information Curvature

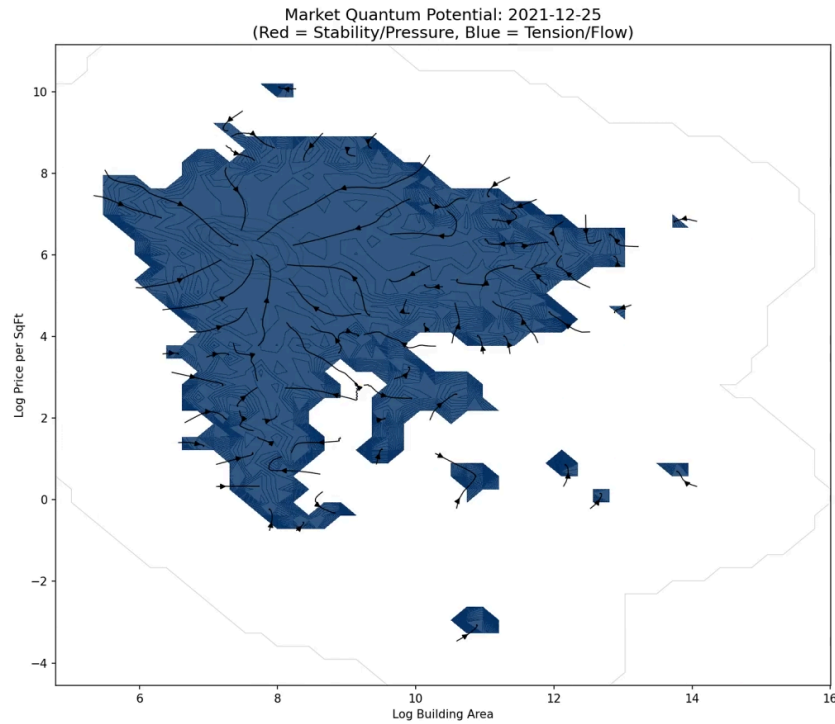
I visualized the Quantum Potential (Q), revealing its explicit identity as a geometric object. In the Madelung formulation, Q is not a mysterious force, but an algebraic functional of the score function or velocity vector:

$$4 \frac{\nabla^2 \sqrt{\rho}}{\sqrt{\rho}} = |\nabla \ln \rho|^2 + 2 \nabla^2 \ln \rho$$

This decomposition makes the bridge to Information Geometry mathematically transparent by separating the potential into two distinct statistical descriptors:

- The Fisher Information Component ($|\mathbf{v}|^2$): The term $|\nabla \ln \rho|^2$ represents the squared norm of the score function. In information theory, the expectation of this term is the Fisher Information, which measures the sensitivity of the probability density to changes in its parameters. Locally, it defines the metric curvature of the state space.
- The Diffusion/Divergence Component ($2 \nabla^2 \ln \rho$): The term $2 \nabla^2 \ln \rho$ (or $2 \nabla \cdot \mathbf{v}$) represents the divergence of the score. This is the Laplacian of the log-density, which characterizes the local concentration or dissipation of information.

Thus, the Fisher Information is effectively the unscaled, divergence-free component of the Quantum Potential. Think of Q as the 'cost of certainty'; just as you cannot squeeze a balloon into a single point without it pushing back, Q is the repulsive force that engages whenever the market tries to form a perfect consensus, preventing the probability cloud from collapsing into a mathematical singularity.



This analysis reveals the New York City housing market is always in a flow state. It is important to note here the quantum potential used in this analysis is a statistical curvature term, not a physical force. It represents the local deviation from a classical equilibrium, manifesting as an informational pressure that guides the trajectory of value through the phase space.

Note on Scaling: While the geometric identity of Q is precise, its absolute magnitude in a physical or socio-economic system depends on a coupling constant; an effective Planck parameter (\hbar_{eff}). In his seminal 1966 work, Edward Nelson demonstrated that the Schrödinger equation could be derived from classical stochastic mechanics by treating the diffusion coefficient (ν) as the fundamental scaling factor, where the relationship is typically defined as $\hbar = 2m\nu$.

In the context of this study, this implies that the "quantum" behavior of the Madelung object is not a fixed universal, but is instead modulated by a local, time-dependent scalar representing the system's "volatility temperature." While Nelson's derivation opens a clear path for future analysis, specifically in using empirical market volatility to calibrate the strength of the informational potential, such work is beyond the scope of this initial framework. Here, Q is presented to establish the formal bridge between Bohmian mechanics and Information Geometry, rather than as a calibrated empirical signal.

Theoretical Extension: Lie Derivatives and Noether Symmetries

The construction of a differentiable manifold theoretically permits a rigorous search for hidden conservation laws using Lie Derivatives (\mathcal{L}_v). By computing how the Fisher Metric g distorts as it flows along the velocity field, one can hunt for Noether Symmetries; mathematical proofs that a quantity (like "market energy") is conserved over time. Specifically, a vanishing Lie Derivative ($\mathcal{L}_v g = 0$) would identify a "Killing Vector Field," implying that the market's information geometry is invariant under evolution. Conversely, a non-zero result quantifies the system's dissipation or entropy production. While preliminary experiments were conducted to test these geometric symmetries, they remain incomplete and were excluded from this analysis for the sake of brevity. However, this line of inquiry is of an extreme

significance; these tests can reveal the fundamental rules a system follows, or has followed. The following article explains the concept quite well in an accessible way:

<https://www.quantamagazine.org/what-are-lie-groups-20251203/>

The Bataillean Decomposition

The final experiment of this study bridges the gap between thermodynamic physics and heterodox economics. I would consider it the crown jewel of what I have so far. It is inspired by the work of French philosopher Georges Bataille, whose 1949 treatise *The Accursed Share* proposed a “solar economy” rooted in the physical reality that the sun floods the earth with a constant, unreciprocated superabundance of energy, implying that the fundamental drive of any system, biological or economic, is not the accumulation of scarce resources, but the necessary dissipation of inevitable excess. He categorized this expenditure into two forms:

Growth (Structure): Energy used to expand the system or maintain its “form”.

Waste (Luxury): The “accursed share” of energy that cannot be absorbed by growth and must be catastrophically expended (through luxury, war, or non-productive consumption) to prevent the system from exploding. Bataille's paradigmatic example was the potlatch; the ceremonial destruction or gifting of wealth practiced by Indigenous peoples of the Pacific Northwest, where surplus was ritually burned or given away precisely because it could not be productively absorbed.

While dismissed by mainstream economists of his day, Bataille's intuition aligns remarkably with modern Stochastic Thermodynamics. In the Fokker-Planck framework, the total entropy production of a system can be mathematically decomposed into two distinct components: the “Housekeeping Heat” (energy dissipated to maintain non-equilibrium steady states) and the “Excess Heat” (energy dissipated during transitions between states).

Mathematical Formulation

I formalized Bataille's philosophy into a rigorous “Flux Decomposition” of the Madelung probability current. Using the extracted diffusion coefficient D , I separated the total velocity field \mathbf{v} into two orthogonal vectors; flow driven by density gradients (like water flowing downhill) versus circular flow that maintains disequilibrium (like water swirling in an eddy). Crucially, the vector sum of these components reconstitutes the total observed flow, meaning the system's total kinetic energy is simply the additive sum of its structural work and its circulatory waste. Mathematically, this requires constructing a scalar potential field ϕ from the observed probability current $\mathbf{J} = \rho \mathbf{v}$. It is important to note that the diffusion estimation utilizes full historical context during training to establish a stable baseline, but enforces a strict ‘past-data only’ constraint during testing to prevent data leakage. To ensure the decomposition captures the market's true central tendency, I applied a 1%–99% outlier truncation to the Area and Price domains. By excluding these extreme tails, we isolate the structural core of the market distribution from idiosyncratic boundary events.

The challenge is solving the Poisson equation $\nabla^2 \phi = -\nabla \cdot \mathbf{J}$ across the entire 2D market grid. Rather than using slow iterative methods, I exploited a computational shortcut: the Fast Fourier Transform. FFT converts our spatial field into a “frequency” representation, where “frequency” measures how rapidly the field varies across space. In this transformed space, calculus operations (derivatives) become simple algebra (multiplication), turning the differential equation into a division: $\tilde{\phi}(\mathbf{k}) = -(\nabla \cdot \mathbf{J})^\wedge(\mathbf{k}) / k^2$. This was solved trivially for each spatial frequency \mathbf{k} , then inverse-transformed back to recover the full potential field ϕ .

Think of ϕ as the "topography" of the flow pattern itself. Its gradient $\nabla \phi$ points in the direction probability naturally wants to flow based on conservation of current. Flow that follows this gradient represents the system seeking equilibrium (the osmotic component). Flow that deviates from this gradient, circulating around contours of constant ϕ , represents the energy burned maintaining non-equilibrium structure (the housekeeping component).

The Housekeeping Velocity (\mathbf{v}_{hk}):

This component is driven by the structural gradients of the density field ($\nabla \log \rho$), scaled by diffusion. It represents the flow required to maintain the shape of the price hierarchy against diffusive spreading, keeping Manhattan expensive and the Bronx cheap. This is Bataille's "Form."

$$\mathbf{v}_{hk} = \frac{\mathbf{J}}{\rho} - \mathbf{v}_{ex}$$

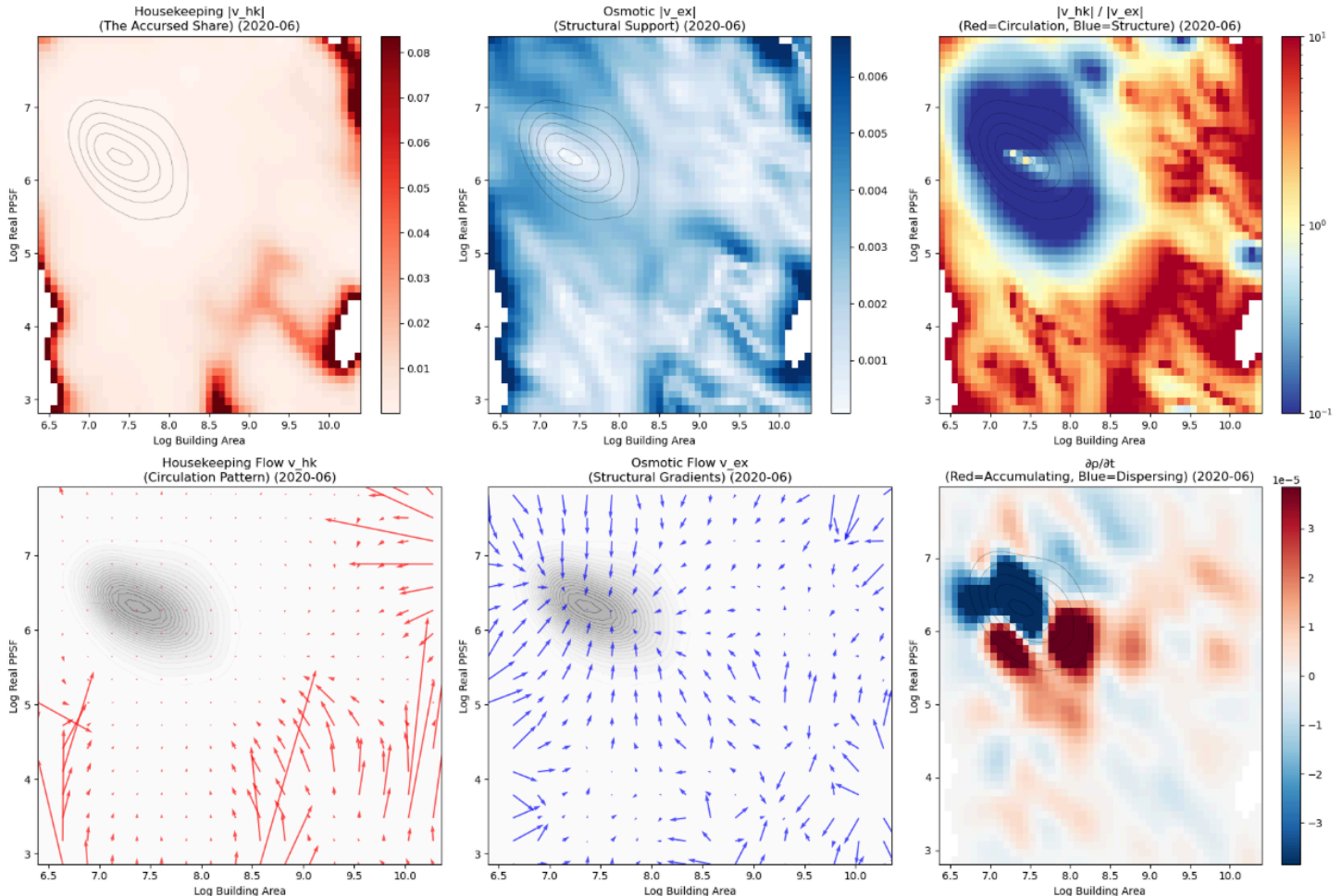
The Osmotic Velocity (\mathbf{v}_{ex}):

This is the residual: whatever flow remains after subtracting the structure-maintaining component. It represents pure circulation, transactions that churn without altering the distribution's shape. This is Bataille's "Accursed Share," the energy the market must burn simply to remain liquid. It is solenoidal (curl-like) rather than gradient-driven.

$$\mathbf{v}_{ex} = D \nabla \log \rho$$

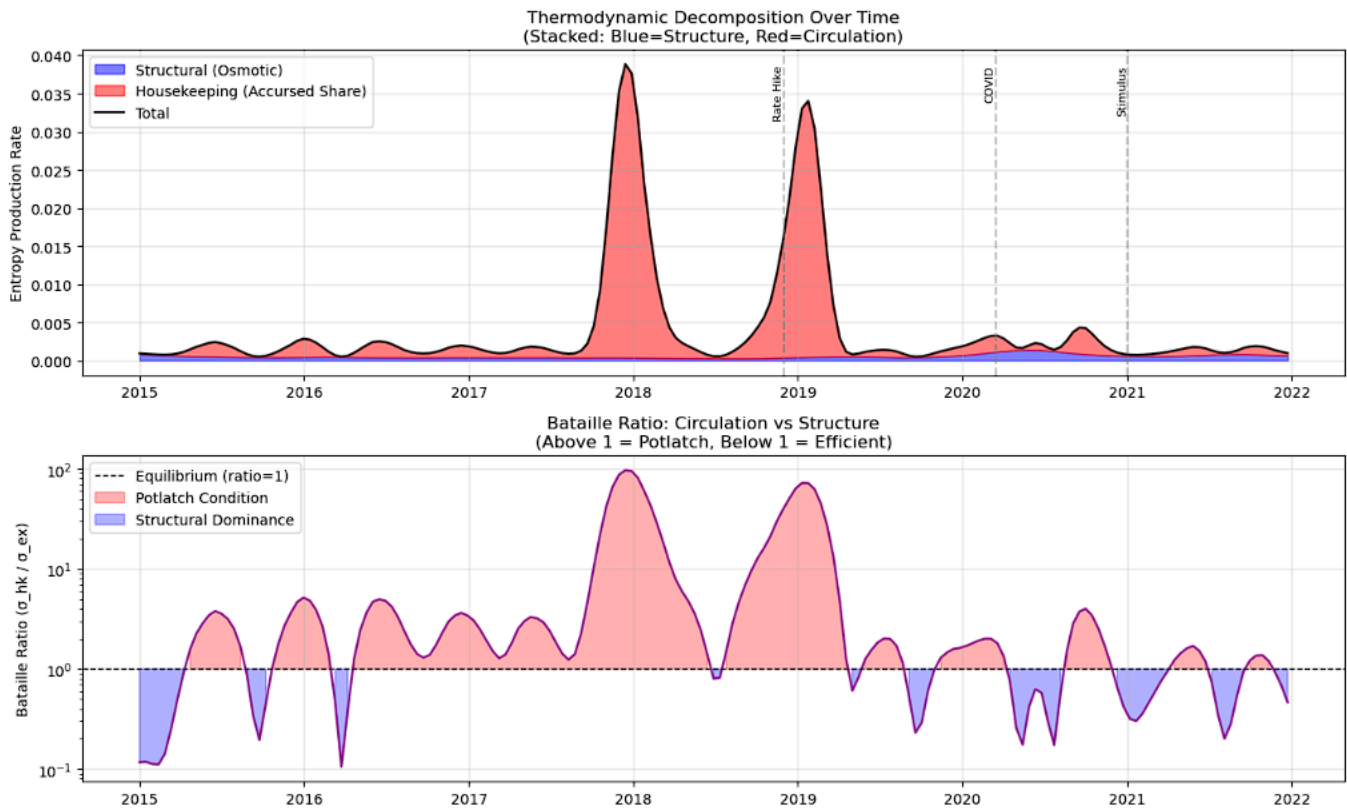
By integrating these velocities over the entire phase space, I calculated the total entropy production rate for each component:

- σ_{hk} (Housekeeping Entropy)
- σ_{ex} (Structural/Excess Entropy)



The "Potlatch" Condition

The decomposition revealed that for 72.1% of the observed period (2015–2021), the market operated in a "Potlatch Condition" (Bataille Ratio $\sigma_{hk}/\sigma_{ex} > 1$).



This implies that the vast majority of the 'work' done by the NYC real estate market is structural, not circulatory. Contrary to the assumption of a friction-free liquid market, the system spends significantly more energy maintaining the rigidity of the price hierarchy (preserving the form against diffusion) than it does churning transaction volume (maintaining the flow). We are observing a system optimized for structural integrity, functioning less like a chaotic engine of waste and more like a complex lattice expending massive energy to freeze value distributions in place.

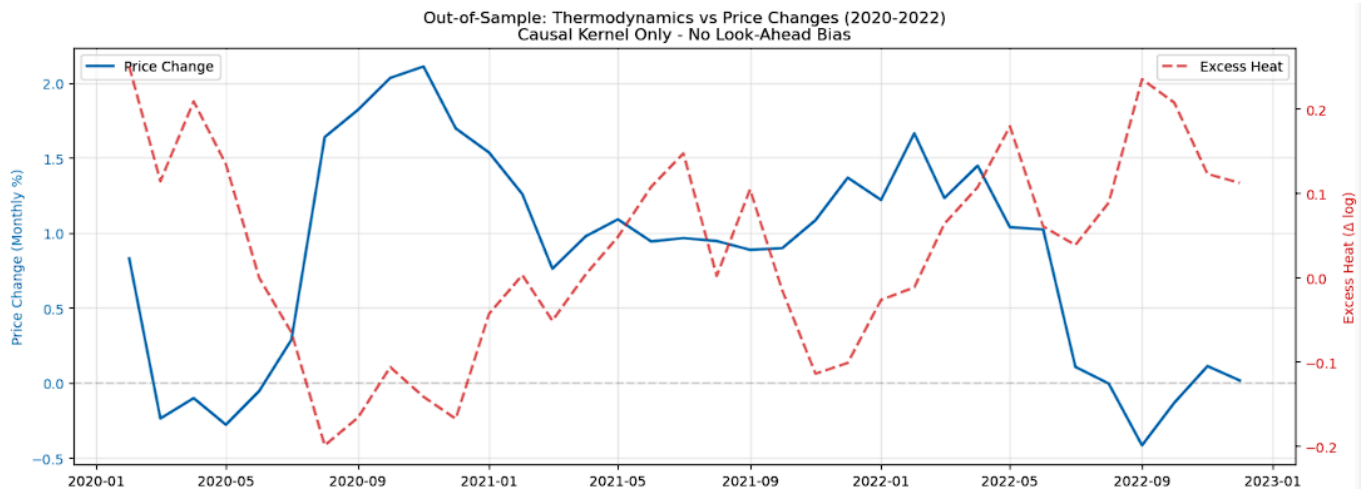
Empirical Validation: "Excess Heat" as a Leading Indicator

To test if this thermodynamic abstraction had predictive power in the real world, I performed a Granger Causality Test against the Case-Shiller NYC Home Price Index. The Case-Shiller index tracks aggregate home price appreciation using a repeat-sales methodology, measuring how the same properties change in value over time. While the underlying transaction data overlaps with the Madelung object, the two constructions measure fundamentally different quantities: Case-Shiller captures price levels, while Excess Heat captures the geometric stress of maintaining the market's distributional structure. The hypothesis was simple: Does thermodynamic instability ("Excess Heat") precede price corrections? To ensure strict statistical integrity, this test utilized a Causal Kernel, reconstructing the density manifold at each time step using only historical data available up to that moment, eliminating any look-ahead bias.

Test Results:

Granger Causality: The "Excess Heat" metric statistically predicts changes in the Case-Shiller Index with a 1-month lag at high significance ($p = 0.001$).

Predictive Regression (OLS): The Ordinary Least Squares (OLS) model yielded an adjusted R^2 of 0.767. The coefficient for Excess Heat was negative and significant ($\beta = -0.025$, $p = 0.001$).



This confirms a robust informational constraint in the underlying data: thermodynamic friction is a precursor to price correction. When the system generates high 'Excess Heat', representing the entropic cost of maintaining structural rigidity, it enters a state of unsustainable stress. The market resolves this instability through a 'cooling event,' shedding value to lower the energy required to sustain its form. Thus, Bataille's concept is transformed from a philosophical metaphor into a rigorous, predictive quantity; the structural overheating of the market is a tangible signal of impending regime change.

OLS Regression Results						
Dep. Variable:	Price_Change	R-squared:	0.788			
Model:	OLS	Adj. R-squared:	0.767			
Method:	Least Squares	F-statistic:	37.16			
Date:	Thu, 18 Dec 2025	Prob (F-statistic):	3.15e-10			
Time:	15:45:25	Log-Likelihood:	146.19			
No. Observations:	34	AIC:	-284.4			
Df Residuals:	30	BIC:	-278.3			
Df Model:	3					
Covariance Type:	nonrobust					
	coef	std err	t	P> t	[0.025	0.975]
const	0.0043	0.001	3.345	0.002	0.002	0.007
Excess_Heat_Lag1	-0.0253	0.007	-3.719	0.001	-0.039	-0.011
Bataille_Lag1	0.0010	0.001	1.025	0.314	-0.001	0.003
Price_Lag1	0.5620	0.115	4.877	0.000	0.327	0.797
Omnibus:	0.659	Durbin-Watson:	1.941			
Prob(Omnibus):	0.719	Jarque-Bera (JB):	0.090			
Skew:	0.041	Prob(JB):	0.956			
Kurtosis:	3.238	Cond. No.	192.			

Technical Note: Thermodynamic Nomenclature

A semantic distinction exists between standard Non-Equilibrium Thermodynamics (NET) and the "Bataillean" interpretation employed here. While strict NET frameworks (e.g., Oono & Paniconi) define

"Housekeeping Heat" as the dissipation required to maintain steady-state currents, I mapped this term to Bataille's "Accursed Share"; the energy dissipated purely to sustain market circulation without altering its configuration. Conversely, I associate the "Osmotic" or "Excess" term with the maintenance of structure, quantifying the energy expended to uphold probability gradients, the score, against the eroding force of diffusion. This alignment preserves the mathematical rigor of the flux decomposition while correctly operationalizing Bataille's sociological distinction between the energy required to maintain form and the surplus that must be expended to prevent systemic collapse.

On the Isomorphism to Diffusion Models:

This framework aligns closely with score-based diffusion models in that it estimates the score function $\nabla \log p(x,t)$ governing the evolution of probability mass. Unlike neural diffusion models, this score is inferred nonparametrically via a differentiable kernel density estimator, enabling explicit recovery of drift fields, diffusion tensors, and probability currents. This places the method within the class of information-geometric diffusion learning approaches, where latent dynamics are inferred directly from evolving distributions rather than parameterized generative models. There is indeed a potential to accelerate this framework and eliminate the curse of dimensionality that somewhat shackles this approach in its current form through the development of a "Madelung Flow Denoising" model.

Conclusion:

This study modeled the New York City real estate market as a continuous probability fluid to reveal three distinct structural regularities observed within the inferred manifold across distinct scales. Through the construction of the Madelung Object, I identified a characteristic coherence scale of 52 days required for signal stability, an informational constraint analogous to the Heisenberg limit governing the trade-off between price certainty and liquidity, and a dissipative regime (the 'Potlatch Condition') where the market maintains structural dominance through the expenditure of excess informational flux for the vast majority of the decade. These findings move beyond standard econometric correlations to offer a rigorous physical description of the geometric and dynamic constraints of the market.

The dominance of structural maintenance costs in the flux decomposition fundamentally reframes the economic problem from one of scarcity to one of dissipation. Consistent with Georges Bataille's concept of a solar economy, the data suggests the market functions not as an efficient allocator of scarce resources but as a dissipative system driven by the necessary expenditure of excess energy. The validation of Excess Heat as a leading indicator ($p=0.001$) confirms that price corrections are thermodynamic cooling events which are structurally necessary to restore flow when the structural tension of the system exceeds its capacity to dissipate.

While this initial model establishes a robust framework, it likely suffers from omitted variable bias as it treats the housing market as a closed thermodynamic system without explicit coupling to external macroeconomic rate variables or policy shocks. However, this limitation highlights the flexibility of the model as it is designed to be modified and extended. This specific implementation represents the culmination of over a year of experimentation by synthesizing insights derived from separate and parallel investigations into the thermodynamics of the stock market and inflationary dynamics into a single cohesive theory of information geometry.

The utility of this hydrodynamic approach extends far beyond real estate. The mathematical machinery developed here to solve for probability currents and potentials is broadly applicable across the sciences and offers new tools for modeling phenomena ranging from the Navier-Stokes equations in fluid dynamics and turbulence to complex interactions in ecology and medical econometrics. By monitoring the

invisible gradients of the probability field, this framework provides a viable instrument for Economic Seismology that is capable of detecting the structural heat of a crisis long before it manifests as a crash in price.

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Note on Formalism:

This paper makes no ontological claims regarding the physical interpretation of quantum mechanics, such as the Many Worlds hypothesis. I subscribe to the "shut up and calculate" school of thought: the mathematical formalism of quantum mechanics is utilized here strictly as a set of statistical tools. Viewing these methods as instrumental rather than representational is necessary to maintain a focus on useful science rather than metaphysics.



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