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Housing Attributes Associated with Capital Gain

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Abstract

Housing units are heterogeneous goods. Rates of change in housing prices are typically modelled as if they arise from factors unrelated to the housing unit itself. For example, housing price increases in the latter part of the 1970s and early 1980s are argued to have arisen primarily from demographic factors and the differential effects of inflation on the effective rate of taxation on income from corporate capital and on owner-occupied housing. Cross-sectional variation in price inflation is not addressed. Consumers who purchased housing units are not indifferent to their attributes. To the extent that expectations vary within regional housing markets as a consequence of variation in housing attributes, standard linear hedonic price regression may generate biased estimates of implicit prices. This paper identifies sufficient conditions for the estimates of implicit prices in linear hedonic price regressions to be unbiased and generate unbiased estimates of implied price changes. Finally, this paper identifies living space (house size) as a significant attribute related positively to the increase in individual housing prices in a regional market.

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