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# Familiarity Bias and Perceived Future Home Price Movements

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## Abstract

This study empirically confirms the existence of the status quo deviation aversion

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Show Purpose

We would like to thank the Center for Real Estate Research and Economic Development (CREED) at Old Dominion University for funding this dataset.

## Notes

1. Thaler [[1993](#)] refers to “behavioral” finance (real estate) as “open-minded” finance (real estate). It can no longer be ignored that not all market participants behave with 100% rationality 100% of the time. In a more definitive statement, Shleifer [[2000](#)] concludes that people's deviations from rationality are pervasive and systematic.
2. It can be counter-argued that an independent appraiser will provide an objective evaluation of the property thus nullifying the drawback of a homeowner's familiarity bias. However, appraisals are only measures of current values. Appraisals are not forward looking and do not incorporate future expected risk and return. This is something the homeowner needs to assess in order to make intelligent sell or refinance/mortgage choice decisions.
3. It is important to note that familiarity bias is not just a problem that affects an individual homeowner in isolation. When it becomes commonplace, contagion may set in and influence market conditions and outcomes for the entire U.S. economy, even those homeowners not subject to such biases (Harding, Rosenblatt, and Yao [[2009](#)], Lin, Rosenblatt, and Yao [[2009](#)], Rogers and Winter [[2009](#)], Immergluck and Smith [[2006](#)]).
4. All of the above are potential pitfalls associated with errors in risk assessment. We leave it to the reader to determine if these biases are more likely to occur in decision making.
5. The return on investment for these homes is likely to be lower than the return on other investments.
6. Caution should be taken in interpreting the results of this research. However, the results are consistent with the findings of other research. Because the concepts of familiarity bias and familiarity bias are well established in the literature, the sample is likely to be representative of the population. It is not clear if the results will suffer from common biases.



7. The need to augment an existing database or create a new dataset through the use of a survey is common in behavioral financial research because surgical precision is often needed to ferret out the idiosyncrasies of behavioral biases and natural laboratories for doing so are few and far between (Baker and Nofsinger [2002]). See recent studies such as Grinblatt and Keloharju [2009], Kumar [2009], and Kaustia, Alho, and Puttonen [2008].

8. <http://www.sca.isr.umich.edu/>

9. Collected weather related variables include the amount of rainfall, temperature, dew point, humidity, barometric pressure, wind speed, wind direction, wind gusts, visibility, and various weather conditions such as clear sky, scattered clouds, partly cloudy, mostly cloudy, overcast, haze, fog, light drizzle, light rain, heavy rain, light thunderstorms, thunderstorms, and dust storms.

10. This number compares with the University of Michigan surveys that utilize a sample of roughly 500.

11. Examples of consumption words include “family, comfort, warm, safe, welcoming, and relaxing,” while investment words include “money, upkeep, return, mortgage payments, investment, and equity.” If at least one word from both lists is used, the observation is classified as both consumption and investment.

12. Unfortunately, we have no way of properly differentiating between true knowledge and the self-reported level of knowledge we ask about on the survey. That is, a humble true expert in real estate might self-evaluate his knowledge of real estate to be a 7 on the scale



person might self-evaluate his knowledge of real estate to be a 7 on the scale for arrogant, knowledge should be present, we consider on real estate is respondents com. Having the Intern than improve “Chira, Adams, complete the survey—find survey complet patterns to the variables included in our sample. This variable is best measured by having

respondents take a proctored quiz without outside resources, but gathering 500 homeowners in an auditorium is an unlikely scenario.

13. Byrnes, Miller, and Schafer [[1999](#)], Harris, Jenkins, and Glaser [[2006](#)], and Powell, Schubert, and Gysler [[2001](#)] also find that gender differences are model-specific. Therefore, it is difficult to make accurate ex ante predictions as it relates to gender.

14. The theory supporting the inclusion of this term is further explained in Keller et al. [[2005](#)].

15. In a large sample like ours, we can offer no rational explanation for why people should systematically believe their home will perform better than homes across the street.

16. We also test using the Case-Shiller index. However, while Case-Shiller is calculated for the MSA and the overall country (a 10-city and a 20-city index), it is not calculated for each state. For both consistency and to avoid spatial aggregation issues, we use the Freddie Mac CMHPI return and volatility throughout our regression analyses.

17. We do not include macro-economic variables in the neighborhood regressions because data at such a micro level are not available. For example, returns to one's house relative to the returns that accrue to each neighborhood are understandably not readily available.

18. All aggregate data was gathered from <http://www.census.gov/hhes/www/housing/hvs/historic/index.html>

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23. Relative income (personal income divided by the median income within the MSA) was also considered based on the work by Kumar [[2009](#)]. Results between income and relative income are qualitatively similar.

24. Although not reported, consistent with Massa and Simonov [[2006](#)], we also considered AGE2 in one specification to try to capture a non-linear relationship. This variable was not significant.

25. We also created a dummy variable to test for “sunny” weather (not just for bad weather) in case the weather effect is asymmetric. The sunny dummy variable is not significant.

26. Woodcock and Custovic [[1998](#)] share that people in industrialized countries spend 93% of their time indoors. It has been suggested that our null weather result might be a function of people not being affected by weather because they remain inside most of the time. However, Keller et al. [[2005](#)] find that the effects of weather are extremely consistent across groups who spend their time outdoors versus indoors. As such, we discount this as a likely explanation of our null weather finding.

27. Even though a full year has yet to pass, we performed a preliminary analysis to determine if respondents were correct in their assessment that their homes, as proxied by MSA, performed better than the rest of the state and country. Our weighted results show slight underperformance. We further segmented by those reporting relative home appreciation values above 5 versus below 5. The above 5 group did perform slightly better. However, both groups were still slightly negative.

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