2020

36th IARIW General Conference

Paper Prepared for the 36th IARIW General Conference, Oslo, Norway, August 24-28, 2020

Selection Bias and Home Price Appreciation: Revisiting Florida's Boom and Bust

Daniel Melser

One of the most widely used methods for constructing home price indexes is the repeat sales approach. Yet, because it only uses prices for properties that sell twice or more and assumes a single price trend, it is susceptible to selection bias. We outline a novel approach to modeling repeat sales transactions which allows a home's characteristics to influence its price movements. Using comprehensive data for Florida from 2002-15 we find that selection effects exaggerated the height of Florida's boom and the depth of the bust. We conclude home prices were almost a third less volatile than is conventionally appreciated.