Price Indices: Variation by Location and Market Segment

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Standard Methods

• What would the sale price be at different times for a property with a given set of characteristics?

1. Means or medians over time.
2. Hedonic index: Control for property characteristics using regression procedures.
3. Repeat Sales: Difference in prices over time for properties that sell more than once. Implicitly controls for property characteristics.

All focus on a single, central tendency – average or median.
Potential bias: are properties that sell in a given time period representative of the entire market?
Index of Average Log Sale Price in Chicago Over Time

![Graph showing index of average log sale price over time from 2000 to 2015. The index peaks around 2007 and then drops sharply before recovering by 2015.](image-url)
Repeat sales index shows higher appreciation in the boom, followed by larger decline, and then larger rebound.

Only about 8.3% of single-family homes sold more than once during this time.

Only about 24.5% of single-family homes sold at all during this time.
Price indices that place more weight on homes with relatively common property characteristics

During the boom period, 2000 – 2007, lots of sales of relatively small, low-priced homes that appreciated rapidly.

During the crash, had a higher proportion of sales of relatively large, high-priced properties.

During the recovery, transacting properties are more representative of the overall distribution of homes.
High v. Low-Priced Homes
Sale Price Distributions over Time