Discussion of

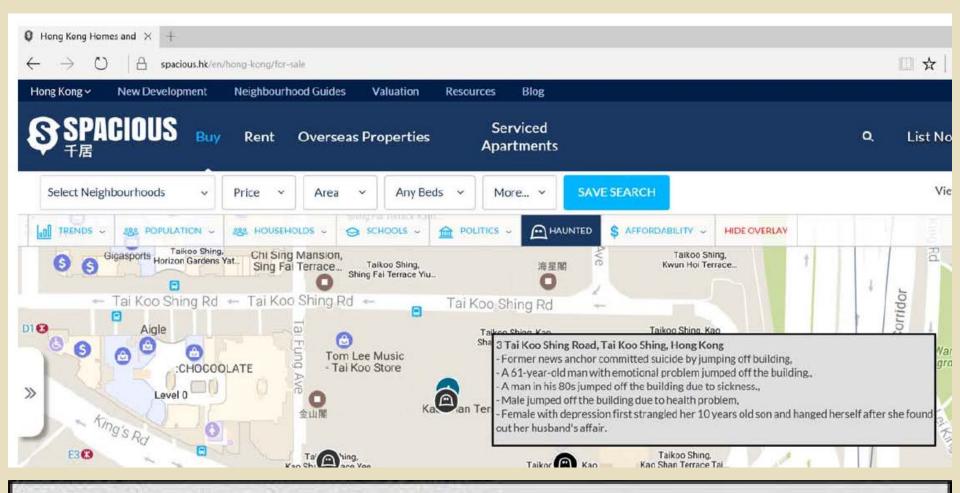# Spillovers in Asset Prices:
The Curious Case of Haunted Houses

(Utpal Bhattacharya, Daisy Huang, Kasper Meisner Nielsen)

by

Johan Sulaeman

NUS
National University
of Singapore

Hong Kong ˅   New Development   Neighbourhood Guides   Valuation   Resources   Blog

SPACIOUS 千居   **Buy**   Rent   Overseas Properties   Serviced Apartments   List No

Select Neighbourhoods ˅   Price ˅   Area ˅   Any Beds ˅   More... ˅   **SAVE SEARCH**

TRENDS ˅   POPULATION ˅   HOUSEHOLDS ˅   SCHOOLS ˅   POLITICS ˅   HAUNTED   AFFORDABILITY ˅   HIDE OVERLAY

Gigasports   Taikoo Shing, Horizon Gardens Yat...   Chi Sing Mansion, Sing Fai Terrace...   Taikoo Shing, Shing Fai Terrace Yiu...   海星閣   Taikoo Shing, Kwun Hoi Terrace...

Tai Koo Shing Rd ←   ← Tai Koo Shing Rd ←   Tai Koo Shing Rd

Aigle   Tom Lee Music - Tai Koo Store   :CHOCOOLATE   Level 0   金山閣   King's Rd

3 Tai Koo Shing Road, Tai Koo Shing, Hong Kong
- Former news anchor committed suicide by jumping off building,
- A 61-year-old man with emotional problem jumped off the building,,
- A man in his 80s jumped off the building due to sickness,,
- Male jumped off the building due to health problem,
- Female with depression first strangled her 10 years old son and hanged herself after she found out her husband's affair.

Taikoo Shing, Kao Shan Terrace Tai...

Summary

- House prices are affected by exogenous events
  - Unnatural deaths in neighboring houses ➜ "Haunted house"
  - (Very) unlikely to be related to the actual quality of the house
  - Prices drop on average 20% for units that become haunted

- Prices drop for neighboring houses:
  - 5% for units on the **same floor**
  - 3% for units in the **same block**
  - 1% for units in the **same estate**

- Spillover effect:
  - Not merely through the "price pressure" channel (i.e., fire sale)
  - Effect exists even when the "haunted" unit is not sold
  - "Quality" channel?

- Interesting study
  - Documenting the economic magnitude of "haunted house" effect
  - Prices drop 20% for haunted units
  - 1-5% for neighboring units

- A concern:
  - What is the economic question?
  - Negative spillover effect does not seem surprising
    - Some (superstitious) potential buyers are no longer interested in the property
    - Sometimes they happen to be the highest bidder
    - Next bidder will have lower reservation price

- Focus on the channel …

Recommended by

Sold in 12 minutes: House where skeletal remains were found sells for $2.23m

⏱ TUE, FEB 27, 2018 - 6:45 PM

CHINA SOUTHERN AIRLINES

Last month, a smaller 1,501 sqft terraced house at Seraya Crescent nearby was sold for $1.828 million, or $1,218 per sqft, said Ms Lee.

At $2.23 million, the Jalan Batai house was sold at a **higher** $1,297 per sqft.

The 70-year-old told reporters after the auction that he will **tear down the old house** and build a new one.

The auction held by real estate agency Knight Frank was made on behalf of the Public Trustee's Office, which comes under the Ministry of Law. The government took over the ownership of the abandoned house in 2015 after **it remained in a dilapidated state for about 10 years**.

(https://www.businesstimes.com.sg/real-estate/sold-in-12-minutes-house-where-skeletal-remains-were-found-sells-for-223m)

Suggestions – 1. "Quality"

- Spillover through "perceived quality"
- Literature on foreclosure mentions two channels:
  - **Price pressure**: Foreclosed houses flooding the market
    - ➔ Supply curve shifting, resulting in lower equilibrium price (but presumably higher volume)
      - ASIDE: The authors describe this as: discounted prices on foreclosed houses push down the reservation prices of potential buyers (p. 15) – This description sounds like a demand effect, not a supply effect
  - **Quality**: Foreclosures negatively affect the perceived quality of neighboring houses
    - ➔ Demand curve shifting, resulting in lower equilibrium price (and presumably lower volume)
      - "Quality" ~ maintenance issues associated with houses in high foreclosure areas
- What is perceived "quality" in the "haunted" context?
  - Perceived quality of living in the unit
    - Lack of **maintenance**? Seems unlikely with condos
  - Perceived **liquidity**: The (in)ability to sell the unit in the future
    - Because potential future buyers would be scared away by the association with "haunted" units? ← Is this due to "quality"?
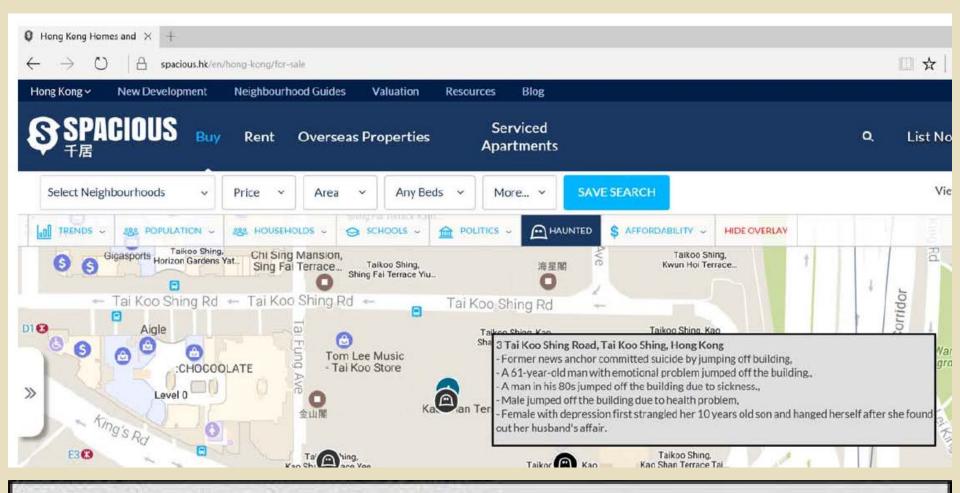   - Liquidity premium!   ← Time varying?

Suggestions – 2. Seller's utility

- The analysis focuses mostly on transaction prices, but looking at **transaction volume** may also be informative

- We observe lower prices
  - Is it due to the difficulty of selling haunted houses (demand channel → lower volume, if seller's reservation price is not met)?
  - Or due to more houses being on the market (supply channel → higher volume)?

- There is some indication of "fire-sale":
  - 8% higher likelihood of the haunted unit being sold,
  - 0.9% for units on the same floor, 0.2% for units in the same block

- Prediction: Price should go down even without additional volume

- Alternatively: Control for neighbourhood transaction volume in the regression?

- Aside: Conceptual model seems to ignore seller's sensitivity to price
  - S=F+j (fire sale + constant)
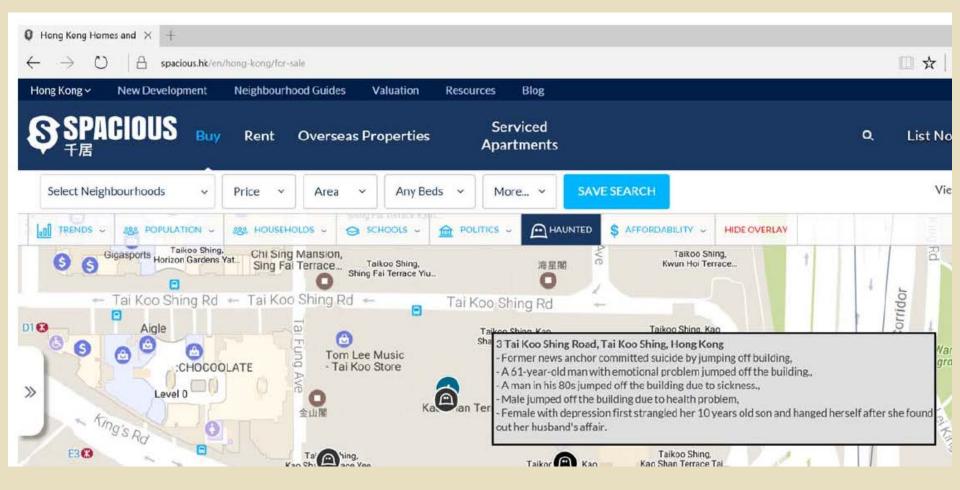
Suggestions – 3. "Stale" prices

"Interestingly, price recovery is slow. We find in our panel that prices of the haunted units do not seem to recover at all during our 16-year sample period. The prices of its affected neighbors in the same floor, block or apartment, do recover, albeit very slowly."

- Due to stale prices?

- Stale prices could also affect the main analysis
    - Probably not biasing the results
    - Currently focused on liquid estates
        - ➔ Perhaps examine the cross-sectional variation within this liquid sample

- Effect on transaction volume could be more meaningful in less liquid estates

Hong Kong ⌄   New Development   Neighbourhood Guides   Valuation   Resources   Blog

SPACIOUS 千居   **Buy**   Rent   Overseas Properties   Serviced Apartments   🔍   List No

Select Neighbourhoods ⌄ | Price ⌄ | Area ⌄ | Any Beds ⌄ | More... ⌄ | **SAVE SEARCH**   Vie

📊 TRENDS ⌄ | 👥 POPULATION ⌄ | 👥 HOUSEHOLDS ⌄ | 🎓 SCHOOLS ⌄ | 🏛 POLITICS ⌄ | 👻 HAUNTED | $ AFFORDABILITY ⌄ | HIDE OVERLAY

Gigasports   Taikoo Shing, Horizon Gardens Yat...   Chi Sing Mansion, Sing Fai Terrace...   Taikoo Shing, Shing Fai Terrace Yiu...   海星閣   Taikoo Shing, Kwun Hoi Terrace...

← Tai Koo Shing Rd ← Tai Koo Shing Rd ←   Tai Koo Shing Rd ←

Aigle   Tom Lee Music - Tai Koo Store   :CHOCOOLATE   Level 0   金山閣   King's Rd

3 Tai Koo Shing Road, Tai Koo Shing, Hong Kong
- Former news anchor committed suicide by jumping off building,
- A 61-year-old man with emotional problem jumped off the building.,
- A man in his 80s jumped off the building due to sickness.,
- Male jumped off the building due to health problem,
- Female with depression first strangled her 10 years old son and hanged herself after she found out her husband's affair.

Taikoo Shing, Kao Shan Terrace Tai...

---

3 Tai Koo Shing Road, Tai Koo Shing, Hong Kong
- Former news anchor committed suicide by jumping off building.
- A 61-year-old man with emotional problem jumped off the building..
- A man in his 80s jumped off the building due to sickness..
- Male jumped off the building due to health problem.
- Female with depression first strangled her 10 years old son and hanged herself after she found out her husband's affair.

Footnote 10: Ghafoor, Spacious founder and CEO, is quoted: "There's a bit of a legal issue with this. For example, if you have a block of flats and somebody jumps off the roof, which individual unit is haunted? So we've got to be a bit careful about describing a haunted house as a specific unit because it leaves us open to being sued by a landlord. We only do that when it's very clear without a shadow of a doubt."
(http://www.scmp.com/lifestyle/article/1872125/hong-kong-haunted-houses-online-map-who-died-where-boon-bargainhunters)

Suggestions – 4. Location ID

*"One big challenge we face in this research is to locate the exact address where the tragic event occurred. Among the 898 incidents, the estate name is available for all. However, block number is available for 729 (81%) of them, floor number is available for 434 (**48%**) of them, and unit number is available only for **a few** of them.*

In some cases, the news mentions the transaction history of the haunted house, and so it is possible to look up the unit number from our transaction data.

*As of now, we have identified 165 addresses (**18%**)."*

This can lead to misidentification of "haunted" unit:

- Let's say that the floor is identified correctly, but the unit is misidentified
- Assume the actual haunted unit is sold at **20%** discount, but is misidentified as a "same-floor but not haunted" unit
- Assume there are four units per floor, the rest are being sold at 0% discount
- The "expected" effect of "same-floor but not haunted" is ¼ * 20% = **5%**, eventhough there is no actual discount
- Block and estate analyses seem to be less problematic (more units, better identification)

- Why not go the other way: Use official crime data from HK police, e.g., murder/suicide police reports?

Suggestions – 5. Cross-Sectional

- If HK is like Singapore, there is a large cross-regional variation of **expat population**

  > *Wary locals are not the only ones who the real estate companies target. They also target opportunistic non-locals. Coconuts (https://coconuts.co/hongkong/news/hong-kongs-haunted-apartments-go-half-price/) writes "Those looking to rent and buy in one of the world's most expensive cities for real estate can enjoy discounts of **up to 50 percent** if they're willing to stay in an apartment where a suicide or murder occurred."*

- Estate **age**?
  - Correlated with likelihood of redevelopment?

- **Larger** units?
  - Relatively less liquid market?

- Larger blocks, larger floor (4 vs. 8 units)?
  - Lower likelihood of first-time event

- **First-time event** in the estate / block?

Suggestions – 6. Event Type

*"Amongst the tragic events that we consider, **murder** has the most dramatic ripple effect."*

*"**Murder**, on the other hand, accounts for only 2% of our sample."*

- Murder ~ criminal activity in the neighborhood?

I would recommend focusing on
suicides by jumping to death:

- The quality of the "haunted" unit is not affected
- The unit is not a crime scene
- Unrelated to security/criminal issues
- Victim did not even live in the units …

Conclusion

- Very interesting paper with novel idea
- Data issues need to be addressed
  - Authors are working (have worked) on it
- Contribution needs to be clarified
  - What is the "quality" channel?
  - Is this related to liquidity (inability to sell in the future) or quality of living (bothered by ghosts)?
  - Perhaps data on "days on market"?
  - Some "microstructure" data on sales and transactions may be useful in this context