

Report on:  
Discussion Paper  
No. 2015-13 | February 25, 2015  
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"Urban House Prices: A Tale of 48 Cities"

This paper aims at investigating the determinants of the apartment prices in 48 large cities from 24 European countries. The data span from January to May 2012 and are extracted from 33 major websites offering flats for sale. The following specific objectives are pursued:

- (i) identification of the most relevant factors for the price level, among the wide range of determinants for flats' prices suggested by the housing literature, and testing for robustness of results;
- (ii) identification of the cities where flats are "overvalued";

The linear relationship between prices and their potential determinants is estimated using both OLS regression and quantile regression under two versions of the model: a large model with several explanatory variables and a small model with fewer, most significant variables. For both OLS and quantile regression, the significant variables turn out to be per-capita GDP, population density, unemployment rate, Gini index (all with the expected signs), as well as certain dummy variables associated with the Euro area. Several robustness checks are conducted (e.g. by repeating the estimates with one city excluded).

Fitted prices are regarded as proxy for the fundamental prices, to gain insight on overvaluation / undervaluation of apartment prices and the most overvalued cities (e.g. London) are identified, as well as the most undervalued (e.g. Copenhagen and Sofia).

The paper also contributes to building a new database on home prices from alternative data sources - offer prices from advertising websites - that can be used as proxy for flats' prices (and are available with no delay).

I think that this paper provides a valuable contribution to the empirical literature on house prices.

Here are some points for further discussion.

a) The fitted price cannot be interpreted as the "fundamental price" in the standard sense (e.g. Himmelberg et al. 2005), which is essentially based on the rent level and the so-called user cost. Also, it seems to me that the rent is not included among the explanatory variables. This choice should be justified.

b) The rent-price ratio is a widely adopted indicator of possible overvaluation in housing markets. It would be interesting to identify overvalued cities based on rent-price ratios and compare the results with those in figures 7-8-9 (based on fitted values).

Minor corrections

Last paragraph of Section 1: there is no rent/price indices in section 3

References

Himmelberg, C., Mayer, C. and Sinai, T. (2005): Assessing high house prices: bubbles, fundamentals and misperceptions. *Journal of Economic Perspectives*, 19, 67-92.