



What is the Value of a Name? Conspicuous Consumption and House Prices

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What is conspicuous consumption?

- Buyers pay more for products that:
 - Are status-enhancing
 - Constitute an image that creates a personal experience
 - Generate certain perceptions, attitudes and behaviors
- In real property markets: conspicuous consumption relates to the question of relative house size and subdivision name.

[Conspicuous consumption in RE]

- Schaeffer and Millerick (1991), Diaz et. al. (2008): Intangible benefits of historic designation.
- Dermisi and McDonald (2009): Class A business property rents at premiums due to classification.
- Turnbull et. al. (2006): relative house size measures are not consistent with conspicuous consumption theory.

[Names in branding strategies]

- Landes and Posner (1987): branding reduces search costs.
- Zinkhan and Martin (1987): consumers prefer certain types of names that convey the desired attributes of the product of their interest.
- Herbig and Milewicz (1993): a name can provide a consumer with a symbolic meaning that assists in both the recognition of the product and the decision-making process.

[My goal: answer the following]

- Do names of local subdivisions affect residential house values?
- If yes, can the effect be quantified?
- If yes, what are the key words/names used that are valued?

Empirical model

$$\ln Price = c + \alpha \mathbf{H} + \delta \mathbf{M} + \varphi \mathbf{F} + \beta \mathbf{N} + \varepsilon$$

- Function of the vectors of physical characteristics of the house, \mathbf{H} ; localized market conditions, \mathbf{M} ; fixed effects for geographic location, year and season of sale, \mathbf{F} ; and a set of variables of interest, \mathbf{N} .

[Empirical model cont.]

- We identify subdivisions within census tracts with similar housing units and test if there are any pricing differentials that can be attributed to subdivision names.
- Anecdotal evidence asserts that prestige-related property names, such as *Country Club*, increase value by up to 30 percent.

[Data]

- 20 years of housing sales transactions in Baton Rouge, Louisiana
- 28,770 observations
- To enhance the comparability and homogeneity of the houses, we restricted our attention to a heavily residential area that is a large contiguous region within the parish urban area.

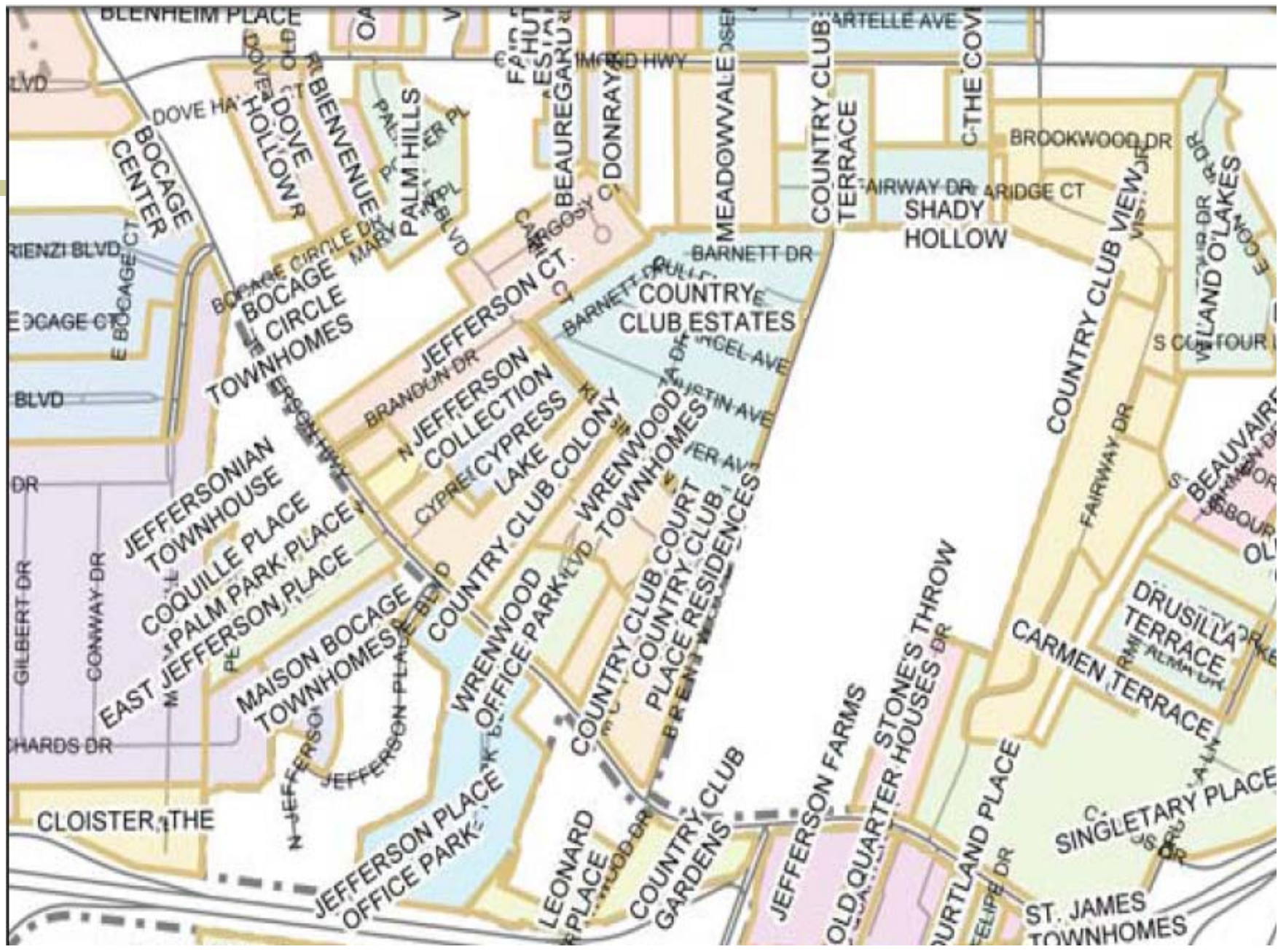
[Empirical model cont.]

■ Variables:

- *House Characteristics*: Bedrooms, Bathrooms, Fireplaces, Age, Age_sq, Living Area, Net Area, Living Area_sq, Net Area_sq.
- *Market Conditions*: Vacant, Listing Density, Smaller, Larger.
- *Local Area Controls*: Distance_Club.

[Data cont.]

- The dependent variable is house sale price (\$121,000). Some of the variables that capture house attributes are number of bedrooms (3.4), number of full bathrooms(2), living area in square feet (2000), and net area (724).



Additional considerations

- Neighborhood housing market:
 - Defined by the number of competing houses that are for sale at the same time a house is on the market.
 - Measure with Listing Density — the intensity of competition from other houses for sale per day on the market

$$\text{Listing Density} = \sum_{j \in I} \frac{(1 - D(i, j))^2 O(i, j)}{S(i) - L(j) + 1}$$

[Additional considerations]

- Neighborhood atypicality effect: the extent to which a given house is either larger or smaller than the average living area in the surrounding neighborhood.

$$Localsize_i = \frac{Livingarea_i - \sum_{j \in J} Livingarea_j / N_j}{\sum_{j \in J} Livingarea_j / N_j}$$

Results

Table 2: Regression Results Dependent Variable: $\ln(\text{Price})$

<i>Independent Variables</i>	(1)	(2)	(3)	(4)
	<u><i>Ln(Price)</i></u>	<u><i>Ln(Price)</i></u>	<u><i>Ln(Price)</i></u>	<u><i>Ln(Price)</i></u>
	(0.0000032)	(0.0000032)	(0.0000032)	(0.0000032)
Country		0.0549***	0.0316***	0.0415***
		(0.0078)	(0.0066)	(0.015)
Country Club			0.0499***	0.0513***
			(0.016)	(0.016)
Country* Age				-0.000844
				(0.0012)
<u>Distance club</u>	-0.0240***	-0.0179***	-0.0152***	-0.0146***
	(0.0043)	(0.0044)	(0.0045)	(0.0046)
<u>Distance club sq</u>	0.00129***	0.000981***	0.000839**	0.000808**
	(0.00036)	(0.00036)	(0.00036)	(0.00036)
Smaller	0.467***	0.453***	0.450***	0.450***
	(0.017)	(0.017)	(0.017)	(0.017)
Larger	-0.349***	-0.342***	-0.339***	-0.338***
	(0.014)	(0.014)	(0.014)	(0.014)
Observations	28770	28770	28770	28770
R-squared	0.91	0.91	0.91	0.91

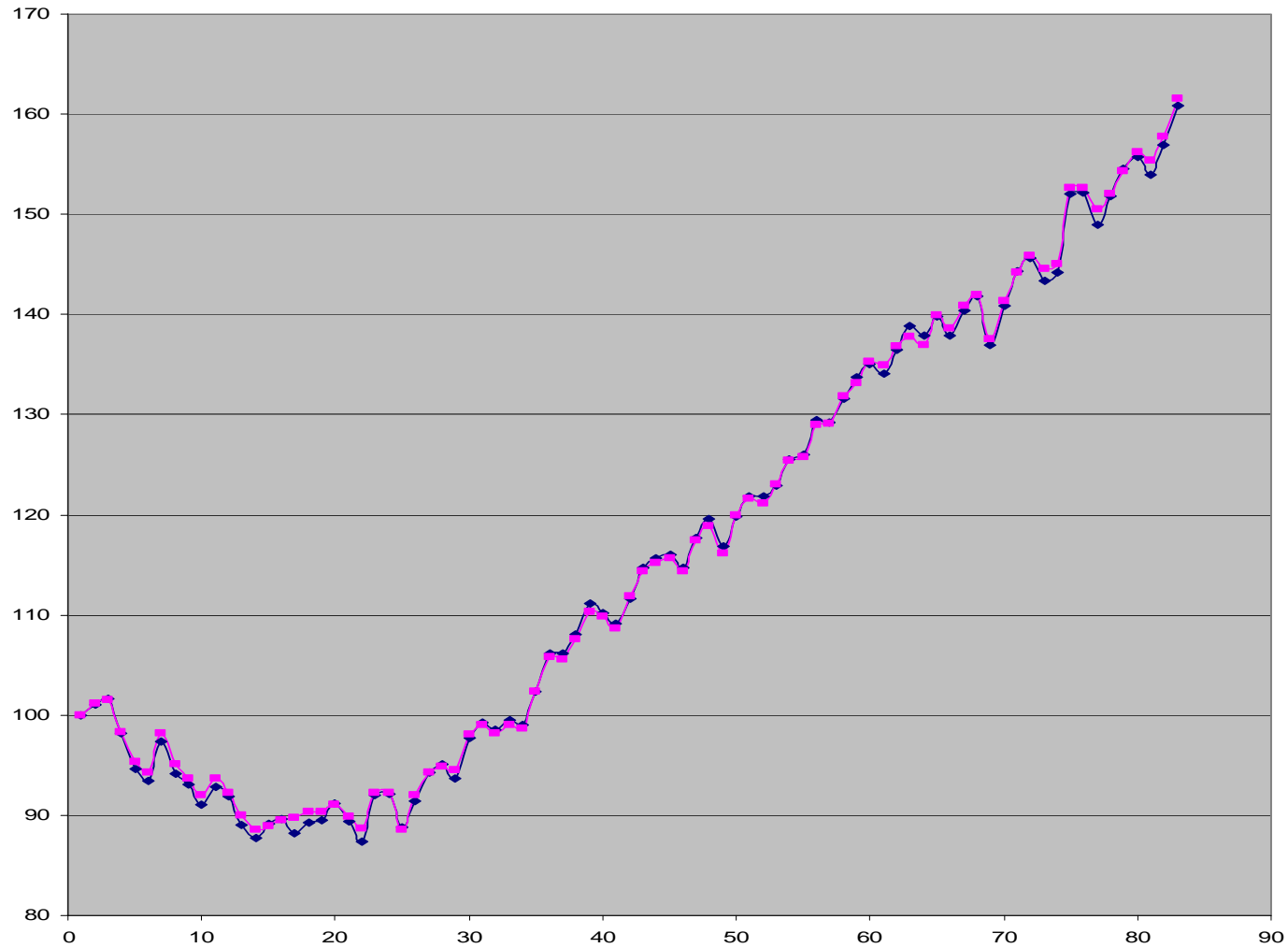
Clustered standard errors in parentheses. Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Coefficients for year sold and location controls based on 85 census tracts are not reported here.

[Additional considerations]

- Different phases of housing market cycle: falling and rising market.

[Results cont.]



Results cont.

Table 4: Regression Results for Different Housing Market Phases

Independent Variables	(2) Full Sample	(3) Full Sample	(2) Declining Market	(3) Declining Market	(2) Rising Market	(3) Rising Market
	<i>Ln(Price)</i>	<i>Ln(Price)</i>	<i>Ln(Price)</i>	<i>Ln(Price)</i>	<i>Ln(Price)</i>	<i>Ln(Price)</i>
Country ^a	0.0549*** (0.0078)	0.0316*** (0.0066)	0.0542** (0.021)	0.0604*** (0.017)	0.0522*** (0.0084)	0.0261*** (0.0073)
Country Club ^b		0.0499*** (0.016)		-0.0239 (0.066)		0.0531*** (0.017)
Distance_chub	-0.0179*** (0.0044)	-0.0152*** (0.0045)	0.00834 (0.011)	0.00793 (0.011)	-0.0228*** (0.0047)	-0.0200*** (0.0049)
Distance_chub_sq	0.000981*** (0.00036)	0.000839*** (0.00036)	-0.000266 (0.00079)	-0.000239 (0.00079)	0.00123*** (0.00039)	0.00108*** (0.00039)
Smaller	0.453*** (0.017)	0.450*** (0.017)	0.473*** (0.038)	0.473*** (0.038)	0.452*** (0.019)	0.450*** (0.019)
Larger	-0.342*** (0.014)	-0.339*** (0.014)	-0.279*** (0.031)	-0.280*** (0.031)	-0.342*** (0.015)	-0.339*** (0.016)
Observations	28770	28770	5276	5276	23494	23494
R-squared	0.91	0.91	0.87	0.87	0.91	0.91

Significance levels: *** p<0.01, ** p<0.05, * p<0.

Coefficients for year sold and location controls based on 85 census tracts are not reported here.

^aThe number of sales, n=71, in the Declining Market. The number of sales, n=572 in the Rising Market.

^bThe number of sales, n=20, in the Declining Market. The number of sales, n=338 in the Rising Market.

[Descriptive results]

- Buyers pay an average of approximately 5.1 percent for “country club” in the property name.
- Wealthier buyers are more willing to pay a price premium for the words “country club” than those in the bottom quartile (house price distribution).
- Conspicuous consumption decreases during recessionary times, with real property buyers less willing to pay premiums for the prestige associated with these words.

[Final remarks]

- This is the first study to find that buyers are willing to pay more for certain property names.
- Buyers' perceptions of real property attributes may prove as valuable as or more valuable than the real utility of some attributes.