

Tracking Owners' Sentiments: Subjective Home Values, Expectations and House Price Dynamics

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Abstract:

Economic theory predicts that expectations on future house price growth are related to the current price. We test this relationship for the supply side of the secondary housing market using micro data linking individual expectations to subjective owner-estimated values (OEV). We perform convergent validity tests and conclude that the “wisdom of the home-owner crowd” is sufficient to study even objective house price dynamics. We find convincing evidence that optimistic expectations indeed imply higher OEVs as compared to neutral or pessimistic expectations. Results are qualitatively and quantitatively consistent for Italy and the US as well as for booming and gloomy years.

Keywords: Housing Markets; Expectations; Heterogeneous Beliefs; Subjective Data; Convergent Validity

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