Accepted Manuscript

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PII: S0166-0462(16)30324-6

DOI: 10.1016/j.regsciurbeco.2018.02.005

Reference: REGEC 3342

To appear in: *Regional Science and Urban Economics*

Received Date: 21 November 2016

Revised Date: 24 May 2017

Accepted Date: 21 February 2018

Please cite this article as: Lopez, E., Hewings, G.J.D., Housing price indices for small spatial units, *Regional Science and Urban Economics* (2018), doi: 10.1016/j.regsciurbeco.2018.02.005.

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ACCEPTED MANUSCRIPT

Housing Price Indices for Small Spatial Units

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Abstract: Median-based Housing Price Indices (HPIs) generate potentially misleading indicators especially when applied to Small Spatial Units (SSUs) such as small Metropolitan Statistical Areas (MSAs) or neighborhoods within larger metropolitan regions. Given the small total number of sales in SSUs and the even smaller number of repeat sales, traditional alternatives are few. A matching-based Fisher HPI is proposed as an alternative that provides more accurate estimations for SSUs given that it both controls for housing characteristics and is not restricted just to repeated sales. This paper makes use of housing sales data from the state of Illinois, as an example of the application of the methodology to small MSAs and at the neighborhood level within larger MSAs. The results highlight some of the biases that have arisen from the use of median price indicators.

Acknowledgements:

We are thankful to the Illinois Realtors® for providing the data used in this article. Also, we would like to acknowledge the helpful comments on initial versions of this paper provided by Katherine Baylis and Daniel McMillen, as well as colleagues in the Regional Economics Applications Laboratory (REAL) at the University of Illinois at Urbana-Champaign, especially Minshu Du for her contributions to earlier versions of this paper. The opinions and interpretations in this paper are those of the authors.

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