An Empirical Case Study on Housing Value and Rent

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Abstract

One basic and important concept in the analysis of housing market is how housing prices are determined. The answer depends on the tenure situation of the household: to owned or rented. Mills and Hamilton (1994) has detail discussion on the relationship between housing value and rent from the capital cost. Empirically, some literature used a constant multiple which was suggested from the prior study of Shelton (1968). In other studies, housing value and rent were treated as different formulations of annualized user cost, combining mortgage interest, property taxes, utility cost, insurance expenditure, and so on. However, we are interested in the comparison of different approaches to the relationship between housing value and rent. In this study, we use sampling data from Kaohsiung city to evaluate three approaches: the Shelton's multiple, the annualized user cost, and the cross estimation. The main goal of this study is to clarify the concept of housing price in Taiwan and find out which estimation approach is more applicable. We also interpreted the choice preferences of Taiwan households.

Keywords: Housing Value, Housing Rent, User Cost, Nonlocational Expenditure, Taiwan

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