The Value of Housing Characteristics

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A home is made up of a number of attributes that determine its value or selling price. Because all properties are unique in any number of ways, determining how all of the physical and locational characteristics affect the value of a home can be difficult. Recent research provides some insight into which characteristics add or detract from a home’s value.

A new study supported by the National Association of REALTORS® National Center for Real Estate Research measures how different physical attributes of a home can influence the value, and therefore the selling price, of the home. The Value of Housing Characteristics by Stacy Sirmans and David A. Macpherson of Florida State University examines specific property attributes such as size, number of bedrooms and bathrooms, and height of ceilings and how each of these increases the actual selling (not listing) price of home.

The Study

This study uses data encompassing more than 28,800 residential property sales from 21 counties in the Philadelphia area (TReND MLS) over the period 1996 through the first quarter of 2003. The authors used a statistical analysis method called hedonic regression to disentangle the relative effects of property characteristics on a home’s selling price. The study also examined how these characteristics differentially affect selling price across several counties.

Major Findings

The results of the study generally are consistent with the conclusions of earlier research done in this area, although this analysis provides a far greater level of detail. Larger homes and homes with more bedrooms and bathrooms tend to sell for more, even after controlling for other physical, locational and quality features. More immediately, the study also provides estimates of how much more (or less) homes with particular characteristics can be expected to sell for.

Items that tend to increase the selling price of a home include central air conditioning, basements, nine-foot ceilings, fireplaces, garages, and bathrooms. In fact, the study found that bathrooms have a huge impact on selling price, with each full bath adding about 24 percent. Internal features that add the most value include a family room, a dining room, a whirlpool, and a security system. Among other findings of the study:

- A basement increases the value of a home by 9 percent.
- Nine-foot ceilings add about 6 percent to the price. Cathedral ceilings add 2.4 percent to the price.
- Each additional 1,000 square feet of living space increases the selling price by about 3.3 percent.
- While an in-ground swimming pool adds 8 percent to the selling price, an above-ground pool adds no value.
- A fireplace adds 12 percent to the selling price of a home. Each additional fireplace adds approximately 10 to 16 percent.
• Bathrooms have a dramatic effect on selling price with each full bath adding about 24 percent to selling price;
• For studies primarily from the Northeast and Southwest, each additional bathroom increased selling price in the 10 to 12 percent range, each additional bedroom adds about 4 percent to price;
• The value of a garage was consistent across regions in the six to 12 percent range;
• Central air conditioning adds about 12 percent to price;
• A useable attic adds about 2 percent to price;
• Exterior features that affect selling price most included a patio, a sprinkler system, a paddock, and a tennis court;

Some location characteristics add to the selling price of a home. Close proximity to golf adds about 8 percent to the selling price. Any location on water, or with a water view, adds value. The study also finds that certain attributes actually detract from a home’s selling price.
• Houses with vinyl and aluminum exteriors sell for about 4 percent less than houses with brick, while houses with stucco and wood exteriors sell for about 9 percent more;
• Houses with flat roofs sell for about 10 percent less than those with pitched roofs.
• Houses advertised as a “fixer-upper” sell, on average, for 24 percent less than other houses.
• While a basement laundry decreases the selling price of a home by 2 percent, a home with no laundry sells for 15 percent less.
• There are no significant price differences for houses that are on flat lots versus sloping lots.

Importance for REALTORS®
Homeowners invest a significant amount in their homes. The Census Bureau reports that homeowners spend $121.5 billion in 2002 on maintenance, repairs and improvements to owner-occupied properties. Nearly 60 percent of that total was for additions and alterations to the home or property.

Determining how different attributes of a home affect its value is important when selling or buying a home, as well as in financing (or refinancing) of the home. Homeowners must be keenly aware of the trade-offs when making remodeling decisions, especially if those renovations are done in anticipation of selling. NAR’s most recent profile of homebuyers and sellers shows that 25 percent of sellers most want their real estate professional to help them price their homes competitively. Seven percent want their agent to tell them how much to fix up their home and sell it for more money. Being able to determine which attributes of a home add or detract value is a useful tool for REALTORS® in developing a marketing plan for selling a home.

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