

## Do Superstitious Beliefs Affect Housing Prices?

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Buying a house is one of the biggest financial investments for most people. Housing is also the greatest wealth asset for many seniors. Hence, it is important to understand the roles of superstitious beliefs and conspicuous motives in the housing market.

Superstitious behaviours are widely observed. For instance, on Starhub's website, the reserve price for contact number 8727 8888 is \$888. People are willing to pay for such a number could be because it is too easy to remember, for the auspicious or the conspicuous motive.

As buyers are free to choose ordinary contact numbers, the higher prices of lucky phone numbers have a limited economic impact. However, the situation is quite different in the residential housing market.

At any given location, the number of units with and without lucky addresses is always limited. For instance, when a person wants to buy a new home near her workplace, she might have to buy one with a lucky address as it is the only unit left in the location. Even if she is neither superstitious nor has no conspicuous motive, she still has to pay a price premium for the lucky address. This is because she might have to compete with superstitious buyers.

The price differential between a house with and without lucky address depends on the number of buyers who are willing to pay for the former. Suppose 200 buyers interested in 200 units, of which 20 have lucky addresses. If 20 buyers are willing to pay a 2 percent premium for the lucky addresses, these 20 units will be transacted at a 2 percent price premium.

As a consumption good, it is normal for consumers to pay more for their desired housing units. However, as an investment, paying more for features of no practical uses may pose a problem. Imagine a buyer paid 2 percent more for a home with a lucky address. When she sells it, she might not be able to find a buyer who is willing to pay such a premium. As such, her return on investment will be lower than that of others.

Recently, using sales data on newly-built private flats in Singapore between 2000 and 2009, we studied people's demand for homes with lucky addresses. Based on the floor and unit number, we grouped the residential addresses into five categories according to popularity, from the highest to the lowest. The first category is both floor and unit numbers end in "8". The second category is either the floor or the unit number ends in "8", but neither ends in "4". The third category is either both numbers do not end in "8" and "4", or one of them ends in "8" and the other, "4". The fourth category is either number ends in "4", and both do not end in "8". The fifth category is both numbers end in "4".

We find that Chinese buyers are more likely to purchase flats with address numbers ending in "8", and less willing to buy those with address numbers ending in "4".

To understand the reason for buying lucky addresses, we compare housing sales in the "Ghost Month" with those in other months. Since superstitious people will avoid buying homes during the Ghost Month,

if the demand for “8” is driven by superstition, the demand for lucky addresses will be lower during this month. This is supported by the data.

We also find that seniors are less willing to purchase homes during the Ghost Month, suggesting they are more superstitious.

Since most home buyers in Singapore prefer lucky addresses, prices of homes with first-category addresses are 2 percent higher than those with third-category addresses; prices under the fifth category are 1.3 percent lower than those under the third category. At an average price of one million dollars, our results suggest that it will cost 33 thousand dollars more for an address in the first category than for one in the fifth category.

To understand the effect of conspicuous motives on housing prices, we compare the prices of large houses between the first and fifth categories of addresses. The floor areas of these large houses are larger than 90 percent of the dwellings in Singapore. We find that the price differential between these two types of houses is as wide as 16 percent. Since a large house can show off its owner’s wealth status, our results suggest that conspicuous motives also affect housing prices.

Is buying a home with a lucky address a good investment? For most people, the rate of return to their investment does not depend on the degree of luckiness of their houses. However, amongst non-Chinese buyers, the rate of return from purchasing a home with the luckiest address is 15 percentage points higher than that from purchasing a home with a least lucky address. This is mainly because non-Chinese buyers have no preferences for address, hence, on average, may pay lower prices for homes with lucky addresses.

Our research clearly indicates that in the housing market, people do have to pay for their superstitious beliefs or conspicuous motives. If people’s preferences are stable over time, neither superstition nor conspicuous motives affect the rate of investment returns. If, however, future buyers are less superstitious, then people’s preferences for lucky addresses will lead to a redistribution of wealth amongst homeowners when the current owners turn old.