Abstract
This paper investigates why the homeowner's expectation about the sale price of a house deviates from its market price. This paper has two distinct contributions. First, we argue that sale price expectations are individual specific. Omitting this individual effect leads to biased hedonic estimates. As a result, hedonic estimates conditional on individual characteristics are preferred. Second, we economically interpret the individual effect in terms of inaccuracy of homeowners and a specific type of price setting behaviour ("fishing for a relatively high selling price"). In particular, we focus on the role of mortgage commitment, which is measured by the loan-to-income ratio. We argue that homeowners with a higher loan-to-income ratio are less likely to move. Consequently, they incur a low opportunity cost of fishing. They are also less inclined to search. As a result, homeowners with a higher loan-to-income ratio might have more incentive to fish for a higher sale price, but they may also be less accurate with regard to the market price. Our estimates confirm these two hypotheses.