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Why Houses Cost More in Summer

AN ECONOMICS MYSTERY HAS FINALLY BEEN SOLVED.

By *Tim Harford*

Updated Saturday, Sept. 6, 2008, at 7:01 AM ET



It's pleasant—but costly—to buy a house in summer

It's still a miserable year to be selling a house. In May, for example, U.S. house prices fell by 0.4 percent, according to the Office of Federal Housing Enterprise Oversight Index. (The [raw data are here.](#))

Except: They didn't. House prices actually rose in May, albeit very slightly, according to exactly the

same source.

Why the difference? The first number is the result of "seasonal adjustment," an attempt to strip out predictable calendar patterns and report just the underlying trend. House prices usually surge in May, and this May the surge was so limp that after seasonal adjustment, it was a fall.

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House-price indices are [presented in seasonally adjusted form](#) by researchers and reported that way by the media. That makes some sense. For anyone trying to understand the big picture, predictable seasonal gyrations just get in the way.

But for anyone trying to buy or sell a house, predictable seasonal gyrations can't be ignored. Nobody pays a seasonally adjusted price. If you spend \$500,000 on a house in a typical February, you might expect to have paid \$515,000 had you waited until August. That \$15,000 is money in your pocket, seasons or no seasons.

That raises a fairly big question. If house prices systematically surge in summer and stagnate in winter—and they do, in Belgium, France, the United States, and especially the United Kingdom—then why do so many people buy in summer? Why don't we make more of an effort to buy earlier or to wait a few months until the market cools again?

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It's true that summer is a convenient time to buy a house. It is the season of weddings and the time when families prepare to send their children to new schools. These are two popular reasons for moving home. House-hunting is nicer in the sunshine, too. But surely these conveniences aren't worth tens of thousands of dollars.

Another possibility is that summer house buyers save on expensive summer rents or that mortgage finance is cheaper. But no: Neither rents nor mortgages fluctuate with the seasons.

A new [research paper](#)—still at a preliminary stage—by L. Rachel Ngai and Silvana Tenreyro of the London School of Economics, offers a solution to the puzzle.

Start with the observation that, unlike a car or a laptop or a share in Coca-Cola, every house is a little different. Any particular house may match a family's needs awkwardly or perfectly. Finding out just how well a given house suits you is also a costly and time-consuming business.

That means that buyers like to house-hunt in "thick" markets, when lots of houses are for sale, and a very good fit is likely to come up quickly. It is no fun to house-hunt in a "thin" market, where the meager crop of houses is unlikely to offer up the dream home.

If Ngai and Tenreyro are right, then the housing-market dynamic is something like this: Buyers slightly prefer to purchase houses in the summer, so house prices are slightly higher in the summer, so sellers prefer to put their houses on the market in the summer—and with more houses on the market, the market is thicker. That means that buyers are more likely to find the exact house they want and so are willing to pay more. With prices higher, more sellers are attracted into the summer market, and fewer will contemplate selling in the winter. And so on. The self-reinforcing process can produce a large gap between summer and winter prices. In the United Kingdom, regulations mean that few new houses are built, and so the existing stock is particularly idiosyncratic—a possible reason why seasonality is stronger in the United Kingdom than anywhere else.

So by all means, wait until winter in the hope of getting a cheaper house. But remember, a cheaper house is not necessarily a better deal—unless you are not very fussy about how well the house suits you.

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Tim Harford is a columnist for the *Financial Times*. He is the author of *The Undercover Economist*, and his latest book is *The Logic of Life*.

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