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The Recent Slowdown in Sao Paulo's Office Market: A Comparison of Hedonic Indices

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ABSTRACT

Real estate indices often rely on strong constant quality assumptions. Hedonic techniques are more rigorous than median-price measures to control for quality of the assets in place or the quality of the assets that are put on the market at different times. We use a unique appraisal-based rent dataset from Sao Paulo to create two types of time-dummy measures for office properties. To our records, there appears to be no studies that cover the recent meltdown in this market or that compare the performance of different time-dummy methods. The first model – *standard* – includes time dummies, submarket dummies and property-specific attributes. The second – *fixed effect* – is an alternative model, where we consider time dummies, time-varying characteristics (age) and property-specific fixed effects. This latter approach deals with time-unvarying locational and property-specific unobserved heterogeneity. The resulting indices reflect to some extent the cyclicality of rent. Consistent with market segmentation theory, our findings support submarket and building class stratification to account for different niche performance. The *standard* model is often biased upwards, especially in growth locations and among top-tier properties, where supply is more flexible. This methodology limits our ability to control for properties *within* submarket level. Rigid time-unvarying hedonics fail to disentangle property-specific features when new buildings are added to the sample non-randomly.
Key Words: Office Properties, Hedonic indices, Brazil
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