Predicting House Prices in Ames, Iowa Using Multiple Linear Regression

Authors: Joel Laskow Chris Johnson

Introduction:

Any homebuyer in the 21st century will know the struggle of finding affordable housing. Over the past 20 years, popular discourse has grown increasingly louder regarding the state of the housing market. What was once a market of modestly priced dwellings has propagated into an ocean of listings many consider wildly unaffordable.

The scenario has many consumers wondering if house ownership is worth the effort, or if buying a home today is even a safe investment. With the daunting prices of today's home deterring demand, there is a possibility of a collapse in the housing market; it's imperative, then, that housing agencies work to identify the true value of a house in today's market. If this market is to stabilize, consumers and agencies alike must be able to agree on a reasonable price for a new home.

We will attempt to tackle this issue by identifying key variables related to house prices in Ames, Iowa. From these findings we will make predictions on housing prices.

This report will serve as a guide to walk readers through our findings and conclusions.

Data Description:

All training and test datasets (Train and Test, respectively) were obtained through *Kaggle*. This data contains 79 explanatory variables for 1460 housing observation in the training set and 1459 in the test set. These variables include numeric and categorical descriptors of a litany of features found in different houses. Full datasets with all 79 variables can be obtained from the links provided in the Appendix, along with key code and graphs from our study.

Data Cleaning:

Numeric

The Housing dataset obtained from Kaggle was assessed for missing variables. Respectively, 0.6% of raw numeric variables in the training set were missing; 0.6% of raw numeric variables were missing in the test set. This accounted for 18% of LotsFrontage values in the training set and 16% in the test dataset, 6% of GarageYrBlt values in the training set and 5% of GarageYrBlt values in the test set. 1% of MasVnrArea values were missing from the test set. Missing values were imputed with

the mean of the respective explanatory variable. In the train set, 94% of Alley, 47% of FireplaceQu, 100% PoolQC, 81% Fence, and 95% of MiscFeature variables were

missing; respectively, 93%, 50%, 100%, 80%, and 95% were missing from the test set. Given the proportion of missing values, these variables were not included in later tests. Remaining variables with missing values were imputed with the respective explanatory variable mode. Full graphs of missing variables before and after cleaning are included in **Figure 6.** Less than 0.1% of the test set was still missing after cleaning; however, due to time constraints and technical difficulties we were unable to identify and fix the remaining missing values. We moved forward under the assumption that these missing datapoints would not influence predictions.

Only one instance of MSSubClass of level "150" appeared in our data (test and train). Given the level's similarity to MSSubClass level "50", this datapoint's MSSubClass factor level was changed to Level "50". For descriptions of each MSSubClass level, see **Appendix II.**

Lastly, an RShiny application was created to explore distribution of GrLivArea and the distribution of SalePrice, as well as scatterplots exploring the correlation of these variables, in all Neighborhoods within our training set.

Analysis:

Part 1

Our first endeavor sought to quantify the relationship between GrLivArea (Living Area Above Ground), and Sale Price in the 3 neighborhoods: Brookside (BrkSide), Edwards (Edwards), and North Ames (NAmes).

Initial Model:

Sale Price = Beta0 + Beta1*NAmes + Beta2*Edward + Beta3*GrLivArea

Normality Checks

We checked the distribution of GrLivArea and SalePrice using visual means. Both variables were logged to account for outliers within the dataset. QQ and Histograms plots, as well as scatterplots comparing SalePrice and GrLivArea, before and after log transformation are shown in **Figure 2**. Visual assessment of log-transformed variables provided little evidence against assumptions of normality within the dataset.

After Log Transformation:

Log Sale Price = Beta0 + Beta1*NAmes + Beta2*Edward + Beta3*LogGrLivArea

Outlier Check

Residual vs Fitted plots, as well as Scale Location plots and Residualvs Leverage plots were used to visually identify potential high-leverage outliers (**Figure 3a**). Potential high-

leverage outliers were identified at row 339, 136, 131, 190. 104, and 186, 411 of the dataset. After removal of these points, the dataset appeared free of high-leverage points (**Figure 3b**).

K-Fold Cross Validation was implemented to check the validity of the full model. At k=5, the mean CV Press score for our regression model was 4.847129. Adjusted R Squared with and without outliers were identified as 0.4857 and 0.4899 respectively.

Final Model Assessment

Final assessment of regression model comparing log(GrLivArea) to log(SalePrice) generated with and without high-leverage outliers (**Figure 4**). With outliers, we identified the coefficients associated with each parameter of our model (**Figure 5**).

The outlier-included data suggest that a doubling of GrLivArea is associated with, at the 95% confidence interval, a multiplicative change in median SalePrice of (3.1076, 3.6247) for Brookside, (1.89092, 2.06258) for Edwards, and (2.11195, 2.31203) for NAmes.

The outlier-omitted data suggest that a doubling of GrLivArea is associated with, at the 95% confidence interval, a multiplicative change in median SalePrice of (3.13508, 3.6724) for Brookside, (1.88357, 2.04337) for Edwards, and (1.88357, 2.27093) for NAmes.

Part 2

Variable Selection:

We constructed correlation matrices to identify potential multicollinearity among the 74 remaining explanatory variables in the cleaned test and train datasets. The logged variables, such as SalePrice, MsVnRArea, TotalBsmtSF, X1stFlrSF, X2ndFlrSF, LotFrontage, LotArea, YearBuilt, YearRemodAdd, GarageArea, WoodDeckSF, and OpenPorchSF, revealed some evidence of multicollinearity: LotArea with LotFrontage, YearBuilt with YearRemodAdd, and TotalBsmntSF with X1stFlrSF. Consequently, we addressed multicollinearity by removing LotFrontage, YearBuilt, TotalBsmntSF, and MasVnrArea. Additionally, WoodDeckSF, OpenPorchSF, MasVnrArea, BsmtFullBath, BsmtHalfBath, and HalfBath were excluded due to a lack of clear correlation with SalePrice." (Figure 7)

We moved forward with the following numerical variables: FirePlaces, GarageYrBlt, FullBath, TotRmsAbvGrd, X1stFlrSF, and LotArea, YearRemodAdd. Due to time constraints we focused solely on the categorical variable MSSubClass, which identifies the type of dwelling involved in the

sale. This variable was chosen because it handled descriptors and characteristics that were explained by other categorical variables. This left us with 8 variables out of the initial 74.

Full Regression Model:

log(SalePrice) = Fireplaces + GarageYrBlt + FullBath + TotRmsAbvGrd + log(X1stFlrSF) + log(LotArea) + YearRemodAdd + MSSubClass

Forward, Backward, and Stepwise selection was conducted on candidate variables in SAS. Neither forward nor stepwise selection recommended any variables for removal. Backward selection elected for removal of TotRmsAbvGrd, however change in CV Press with removal was negligible compared to those of the stepwise and forward selection models. A summary of our forward, backward, and stepwise selection models are found in **Figure 8 and Figure 9.** Final regression model was as follows:

log(SalePrice) = Fireplaces + GarageYrBlt + FullBath + TotRmsAbvGrd + log(X1stFlrSF) + log(LotArea) + YearRemodAdd + MSSubClass

Assumption Checks

After constructing our final model, we examined residual distributions to assess normality, variance, linearity, and independence assumptions. The Residual Plot displayed random distribution without observable variance changes, while QQPlots and Histograms supported normality assumptions (**Figure 10**). Overall, assessments from scatterplots, QQ Plots, and Histograms found little evidence against the assumptions of normality, constant variance, or linear trend between log(SalePrice) and our model's variables. Lastly, we assume independence among observations in our dataset.

Detecting High-Leverage Points

After checking assumptions, we checked for high-leverage datapoints within our training datasets. High leverage outliers were identified visually through Cook's D Bar Plot, and a Studentized Residuals vs Leverage Plot (Figure 11). Potential high leverage outliers were identified in rows 51, 513, and 859 of the cleaned training dataset.

To test the effects of these outliers on the final model, the training dataset was edited to remove these points. Final Adjusted R-Square changed from 0.7757 (with high-leverage outliers) to 0.7618 (without). Residual Standard Error changed from 0.1926 to 0.193. Given the minimal change in Adjusted R-Square and Residual Standard Error, the outliers were left in the dataset.

Predictions and Model Comparison

House SalePrice values for the test dataset were predicted using the final linear regression model (MLR). Predictions were also made with a simple linear regression model (SLR) using only

YearBuilt, and a second multiple linear regression model (Custom) using GrLivArea and FullBath. Respectively, Adjusted R2 values were 0.7691, 0.3436, and 0.93, while CV PRESS

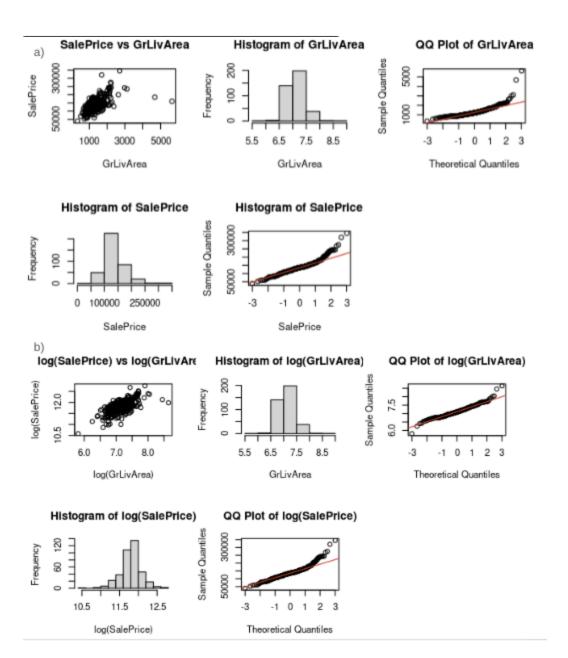
values were 55.51860, 153.34537, and 1149. (**Figure 12**). Final Kaggle scores were, 0.20623 (MLR), 0.32043 (SLR), and 0.32034 (Custom).

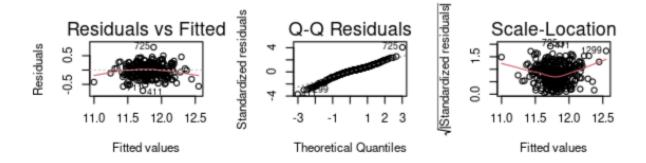
Conclusion:

We are confident that our results reliably quantify the relationship between key housing variables and sales price in Ames, Iowa. It's important to iterate that the findings found in this report are limited to the population of Ames, Iowa. Additional information and comprehensive testing is required to extrapolate results to the larger housing population; nevertheless, we consider our findings invaluable for housing agencies and buyers seeking to identify optimal housing prices within Ame Countys. We further believe that similar testing methods might be applied to samples representative of other housing populations. Such testing could yield profound results that allow predictions of the wider housing population.

Appendix I	ix I	
RShiny Link:		
	son4510.shinvapps.io/Housing	App/

Figure 2. Normality graphs comparing GrLivArea to SalePrice. a) Scatterplot (top left) of SalePrice and GrLivArea, as well as histograms and QQ plots of each variable. b) Scatterplots, QQ Plots, and Histograms of variables after log transformation.





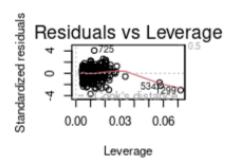


Figure 3. Visual assessment of high-leverage datapoints in Ames dataset. a) Residual and QQ plots with high-leverage datapoints. b) Residual and QQ Plots without high-leverage datapoints.

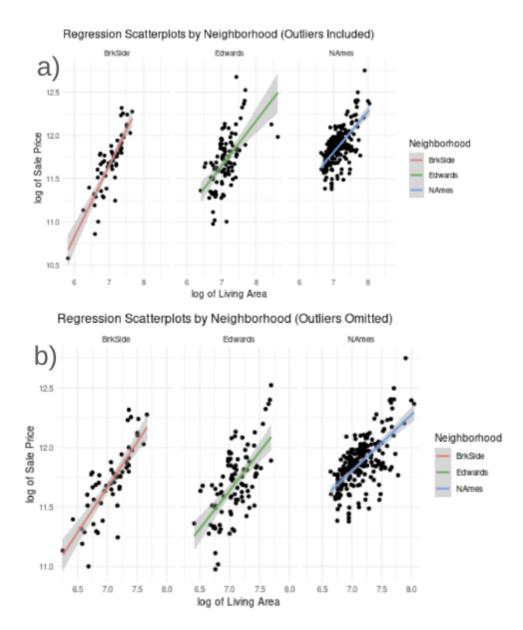
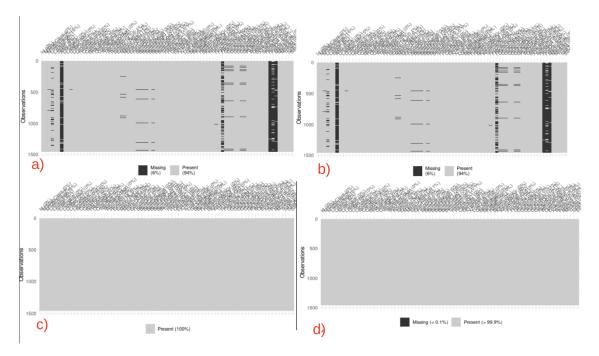


Figure 4. Scatterplot of log(SalePrice) vs log(GrLivArea). a) Outliers included. b) Outliers omitted.



Figure 5. Coefficient summary and confidence intervals. a) Coefficients with high-leverage outliers. b) Coefficients without high-leverage outliers.

Figure 6: Test and Train datasets before and after cleaning. a) Train dataset before data cleaning. b) Test dataset before data cleaning. c) Train dataset after cleaning. d) Test dataset after cleaning.



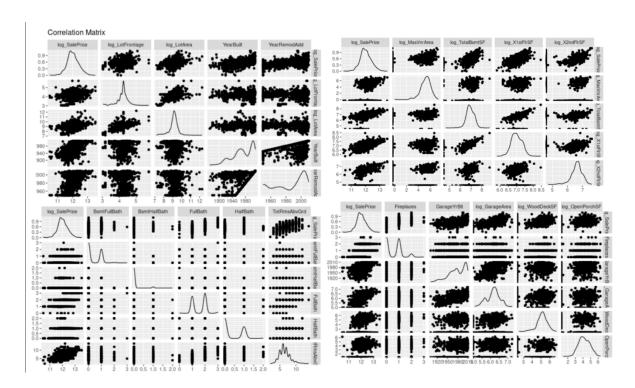


Figure 7: Correlation Matrices, Explanatory Variables vs log(SalePrice)

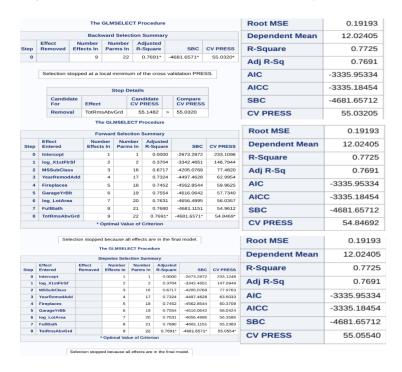
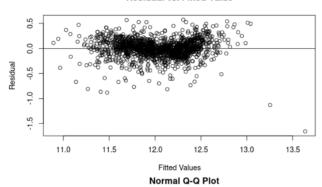


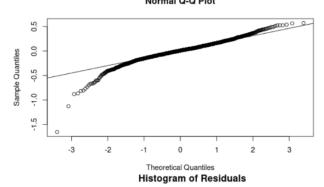
Figure 8. Summary Results for Backward (top), Forward (middle), and Stepwise (bottom).

Figure 9. Primary values used for evaluating selection methods.

	Adjusted R2	CV Press	Variables for Removal
Backward	0.7691	55.03205	TotRmsAbvGrd
Forward	0.7691	54.84692	None
Stepwise	0.7691	55.05540	None







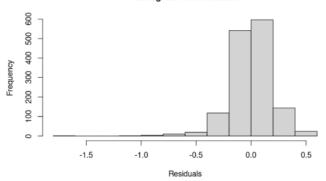


Figure 10. Residual plots for final model. Top) Residual plot; Middle) QQ plot of residuals; Bottom) Histogram of residuals.

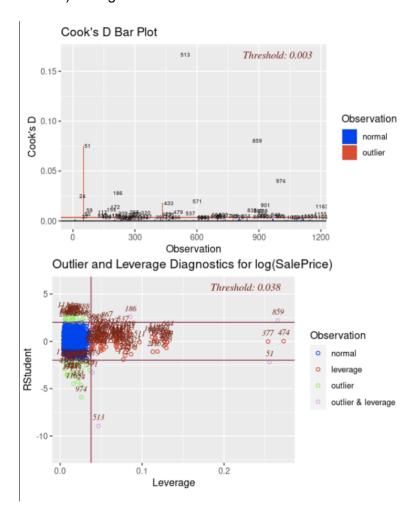


Figure 11. Graphical visualization of potential high-leverage outliers. Top) Cook's D per Observation. Bottom) RStudent values vs Leverage.

Predictive Models		Adjusted R2		PRESS	Kaggle Score
Multiple Linear Regression Model (MLR)	0.7691		55.5	1860	0.20623
Simple Linear Regression (YearBuilt)	0.3436	153.34537	0.32	2043	
Custom (GrLivArea + FullBath)	0.93	1149	0.32	034	

Figure 12. Adjusted R2, CV PRESS, and Kaggle Score. Top) Final multiple linear regression model. Middle) Simple linear regression with YearBuilt . Bottom) Custom model, GrLivArea and FullBath.

Variables Descriptors

MSSubClass: Identifies the type of dwelling involved in the sale.

Appendix II

90 DUPLEX - ALL STYLES AND AGES
120 1-STORY PUD (Planned Unit Development) - 1946 & NEWER 150 1-1/2 STORY PUD - ALL AGES
160 2-STORY PUD - 1946 & NEWER
180 PUD - MULTILEVEL - INCL SPLIT LEV/FOYER
190 2 FAMILY CONVERSION - ALL STYLES AND AGES

MSZoning: Identifies the general zoning classification of the sale.

A Agriculture
C Commercial
FV Floating Village Residential
I Industrial
RH Residential High Density
RL Residential Low Density
RD Residential Low Density

RP Residential Low Density Park RM Residential Medium Density

LotFrontage: Linear feet of street connected to property LotArea: Lot size in square feet Street: Type of road access to property

Grvl Gravel Pave Paved

Alley: Type of alley access to property

Grvl Gravel Pave Paved NA No alley access

LotShape: General shape of property

Reg Regular

- 1. IR1 Slightly irregular
- 2. IR2 Moderately Irregular
- 3. IR3 Irregular

LandContour: Flatness of the property

Lvl Near Flat/Level

Bnk Banked - Quick and significant rise from street grade to building HLS Hillside - Significant slope from side to side Low Depression

Utilities: Type of utilities available

AllPub AllpublicUtilities(E,G,W,&S) NoSewr Electricity, Gas, and Water (Septic Tank) NoSeWa Electricity and Gas Only ELO Electricity only

LotConfig: Lot configuration

Inside Inside lot Corner Cornerlot CulDSac Cul-de-sac

- 2. FR2 Frontage on 2 sides of property
- 3. FR3 Frontage on 3 sides of property

LandSlope: Slope of property

Gtl Gentle slope Mod Moderate Slope Sev Severe Slope

Neighborhood: Physical locations within Ames city limits

Blmngtn Bloomington Heights Blueste Bluestem BrDale Briardale BrkSide Brookside

ClearCr Clear Creek CollgCr College Creek Crawfor Crawford Edwards

Gilbert Gilbert IDOTRR MeadowV Mitchell Names NorthAmes NoRidge

Edwards

Iowa DOT and Rail Road Meadow Village

Northridge NPkVill Northpark Villa

NridgHtNorthridge Heights NWAmes Northwest Ames OldTown Old Town SWISU South & West of Iowa State University Sawyer Sawyer SawyerW Somerst Somerset StoneBr Stone Brook Timber Timberland Veenker Veenker

Condition1: Proximity to various conditions

Artery Adjacent to arterial street
Feedr Adjacent to feeder street
Norm Normal
RRNn Within 200' of North-South Railroad
RRAn Adjacent to North-South Railroad
PosN Near positive off-site feature--park, greenbelt, etc. PosA Adjacent to postive off-site feature

RRNe Within 200' of East-West Railroad RRAe Adjacent to East-West Railroad

Condition2: Proximity to various conditions (if more than one is present)

Artery Adjacent to arterial street
Feedr Adjacent to feeder street
Norm Normal
RRNn Within 200' of North-South Railroad
RRAn Adjacent to North-South Railroad

PosN Near positive off-site feature--park, greenbelt, etc. PosA Adjacent to postive off-site feature

RRNe Within 200' of East-West Railroad RRAe Adjacent to East-West Railroad

BldgType: Type of dwelling

1Fam Single-family Detached 2FmCon Two-family Conversion; originally built as one-family dwelling

Duplx TwnhsE TwnhsI

HouseStyle:

1Story 1.5Fin 1.5Unf 2Story 2.5Fin 2.5Unf SFoyer SLvl

Duplex

Townhouse End Unit Townhouse Inside Unit

Style of dwelling One story One and one-half story: 2nd level finished Oneandone-halfstory:2ndlevelunfinished Two story Two and one-half story: 2nd level finished Twoandone-halfstory:2ndlevelunfinished Split Foyer Split Level Sawyer West OverallQual: Rates the overall material and finish of the house 10 Very Excellent 9 Excellent 8 Very Good 7 Good 6 Above Average 5 Average 4 Below Average 3 Fair 2 Poor 1 Very Poor OverallCond: Rates the overall condition of the house 10 Very Excellent 9 Excellent 8 Very Good 7 Good 6 Above Average 5 Average 4 Below Average 3 Fair 2 Poor 1 Very Poor YearBuilt: Original construction date YearRemodAdd: Remodel date (same as construction date if no remodeling or additions) RoofStyle: Type of roof Flat Flat Gable Gable Gambrel Hip Hip Mansard Shed Shed RoofMatl: Roof material ClyTile Clay or Tile CompShg Membran Metal Metal Roll Roll Tar&Grv WdShake WdShngl Gabrel (Barn) Mansard

Standard (Composite) Shingle Membrane

Gravel & Tar Wood Shakes Wood Shingles

Exterior1st: Exterior covering on house

AsbShng AsphShn BrkComm BrkFaceBrick Face CBlock Cinder Block

CemntBd Cement Board HdBoard Hard Board ImStuccImitation Stucco MetalSdMetal Siding

AsbShng AsphShn BrkComm BrkFaceBrick Face CBlock Cinder Block

CemntBd Cement Board HdBoard Hard Board ImStuccImitation Stucco MetalSdMetal Siding

Other Other

Plywood PreCast PreCast

Asbestos Shingles Asphalt Shingles Brick Common

Other Other Plywood

PreCast PreCast Stone Stone Stucco Stucco VinylSd Vinyl Siding Wd Sdng

WdShing

Exterior2nd: Exterior covering on house (if more than one material)

Plywood

Wood Siding Wood Shingles

Asbestos Shingles Asphalt Shingles Brick Common

Stone Stone Stucco Stucco VinylSd Vinyl Siding Wd Sdng Wood Siding WdShing Wood Shingles

MasVnrType: Masonry veneer type

BrkCmn Brick Common BrkFaceBrick Face CBlock Cinder Block None None

Stone Stone

MasVnrArea: Masonry veneer area in square feet

ExterQual: Evaluates the quality of the material on the exterior

Ex Excellent Gd Good TA Average/Typical Fa Fair

ExterCond: Evaluates the present condition of the material on the exterior

Ex Excellent Gd Good TA Average/Typical Fa Fair Po Poor

Foundation: Type of foundation

BrkTil CBlock PConc Slab Stone Wood

Brick & Tile Cinder Block Poured Contrete Slab

Stone Wood

BsmtQual: Evaluates the height of the basement

Ex Excellent (100+ inches) Gd Good (90-99 inches) TA Typical (80-89 inches) Fa Fair (70-79 inches)

Po Poor (<70 inches NA No Basement

BsmtCond: Evaluates the general condition of the basement

Ex Excellent

Gd Good

TA Typical - slight dampness allowed

Fa Fair - dampness or some cracking or settling Po Poor - Severe cracking, settling, or wetness NA No Basement

BsmtExposure: Refers to walkout or garden level walls

Gd Good Exposure

Av Average Exposure (split levels or foyers typically score average or above) Mn Mimimum Exposure

No No Exposure

NA No Basement

BsmtFinType1: Rating of basement finished area

GLQ Good Living Quarters

ALQ Average Living Quarters

BLQ Below Average Living Quarters Rec Average Rec Room

LwQ Low Quality

Unf Unfinshed

NA No Basement

BsmtFinSF1: Type 1 finished square feet

BsmtFinType2: Rating of basement finished area (if multiple types)

GLQ Good Living Quarters

ALQ Average Living Quarters

BLQ Below Average Living Quarters Rec Average Rec Room

LwQ Low Quality

Unf Unfinshed

NA No Basement

BsmtFinSF2: Type 2 finished square feet BsmtUnfSF: Unfinished square feet of basement area TotalBsmtSF: Total square feet of basement area Heating: Type of heating

Floor Floor Furnace

GasA Gas forced warm air furnace

GasW Gas hot water or steam heat

Grav Gravity furnace

OthW Hot water or steam heat other than gas Wall Wall furnace

HeatingQC: Heating quality and condition

Ex Excellent

Gd Good

TA Average/Typical Fa Fair

Po Poor

Central Air: Central air conditioning

N No Y Yes

Electrical: Electrical system

SBrkr FuseA FuseF FuseP Mix

Standard Circuit Breakers & Romex

Fuse Box over 60 AMP and all Romex wiring (Average) 60 AMP Fuse Box and mostly Romex wiring (Fair) 60 AMP Fuse Box and mostly knob & tube wiring (poor) Mixed

1stFlrSF: First Floor square feet 2ndFlrSF: Second floor square feet

LowQualFinSF: Low quality finished square feet (all floors)

GrLivArea: Above grade (ground) living area square feet

BsmtFullBath: Basement full bathrooms BsmtHalfBath: Basement half bathrooms FullBath: Full bathrooms above grade

HalfBath: Half baths above grade

Bedroom: Bedrooms above grade (does NOT include basement bedrooms) Kitchen: Kitchens above grade KitchenQual: Kitchen quality

Ex Excellent Gd Good TA Typical/Average Fa Fair Po Poor

TotRmsAbvGrd: Total rooms above grade (does not include bathrooms) Functional: Home functionality (Assume typical unless deductions are warranted)

Typ Typical Functionality

- 1. Min1 Minor Deductions 1
- 2. Min2 Minor Deductions 2

Mod Moderate Deductions

- 1. Maj1 Major Deductions 1
- 2. Maj2 Major Deductions 2

Sev Severely Damaged Sal Salvage only

Fireplaces: Number of fireplaces FireplaceQu: Fireplace quality

Ex Excellent - Exceptional Masonry Fireplace
Gd Good - Masonry Fireplace in main level
TA Average - Prefabricated Fireplace in main living area or Masonry Fireplace in basement Fa Fair - Prefabricated Fireplace in basement
Po Poor - Ben Franklin Stove
NA No Fireplace

GarageType: Garage location

2Types More than one type of garage Attchd Attached to home Basment Basement Garage BuiltIn Built-In(Garagepartofhouse-typicallyhasroomabovegarage) CarPort Car Port

Detchd Detached from home NA No Garage

GarageYrBlt: Year garage was built GarageFinish: Interior finish of the garage

Fin Finished RFn Rough Finished Unf Unfinished NA No Garage

GarageCars: Size of garage in car capacity GarageArea: Size of garage in square feet GarageQual: Garage quality

Ex Excellent Gd Good TA Typical/Average Fa Fair Po Poor NA No Garage

GarageCond: Garage condition

Ex Excellent Gd Good TA Typical/Average Fa Fair Po Poor NA No Garage

PavedDrive: Paved driveway

Y Paved P Partial Pavement N Dirt/Gravel

WoodDeckSF: Wood deck area in square feet OpenPorchSF: Open porch area in square feet EnclosedPorch: Enclosed porch area in square feet 3SsnPorch: Three season porch area in square feet ScreenPorch: Screen porch area in square feet PoolArea: Pool area in square feet

PoolQC: Pool quality

Ex Excellent Gd Good

TA Average/Typical Fa Fair NA No Pool

Fence: Fence quality

GdPrv Good Privacy MnPrv MinimumPrivacy GdWo Good Wood MnWw Minimum Wood/Wire NA No Fence

MiscFeature: Miscellaneous feature not covered in other categories

Elev Elevator Gar2 2nd Garage (if not described in garage section) Othr Other Shed Shed (over 100 SF) TenC Tennis Court NA None

MiscVal: \$Value of miscellaneous feature MoSold: Month Sold (MM) YrSold: Year Sold (YYYY) SaleType: Type of sale

WD Warranty Deed - Conventional CWD Warranty Deed - Cash VWD Warranty Deed - VA Loan New Home just constructed and sold COD Court Officer Deed/Estate

Con Contract 15% Down payment regular terms ConLw Contract Low Down payment and low interest ConLI Contract Low Interest ConLD Contract Low Down

Oth Other SaleCondition: Condition of sale

Normal Normal Sale
Abnorml Abnormal Sale - trade, foreclosure, short sale
AdjLand Adjoining Land Purchase
AdjLand Adjoining Land Purchase
Alloca Allocation - two linked properties with separate deeds, typically condo with a garage unit Family Salebetweenfamilymembers
Partial Home was not completed when last assessed (associated with New Homes)