Joyce Woznica

jlwoznic@syr.edu

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HW1

House Price Analysis

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# Introduction

In this exercise, we will be using the house prices data provided () to determine the factors which influence the price of a home. To do this we will be executing the following:

* Data Categorization
* Pivot Tables for Visualization
* Correlation Analysis
* Initial Regression Analysis
* Prediction Model and Sensitivity Analysis
* Conclusions

# The Data

Our house price data provides the following variables about each house data point collected:

* ID – a unique identifier
* Price – price of the home in dollars
* SqFt – square foot area of the home
* Bedrooms – number of bedrooms
* Bathrooms – number of bathrooms
* Offers – number of offers received on the home before the sales
* Brick – Yes/No on if brick construction
* Neighborhood – location of the home in east, west, north quadrants of the city

# Data Categorization

To initially review the data, I created a pivot table to review the Price by type of construction (Brick: Yes or No) and Average Square Feet by designed neighborhood. Figure 1 represents reviewing prices within certain neighborhoods (East, West, North) based on the construction type.

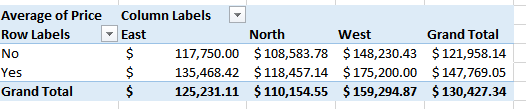


Figure 1: Average Housing Price by Construction Type and Neighborhood

In Figure 2, I created the pivot table, but then manipulated the result in MSWord to show a more aesthetically pleasing. I also selected the neighborhood for the rows and the construction type for the columns in this table.

|  |  |  |  |
| --- | --- | --- | --- |
| *Average Square Feet of House* | Brick | |  |
| Neighborhood | *No* | *Yes* | **Grand Total** |
| *East* | 2001.54 | 2031.05 | 2014.00 |
| *North* | 1928.11 | 1857.14 | 1916.82 |
| *West* | 2073.48 | 2091.25 | 2080.77 |
| Grand Total | **1989.19** | **2025.00** | **2000.94** |

Figure 2: Average Square Footage by Neighborhood and Construction Type

I then reflected the same information similar to the previous table just rearranging the rows and columns and show that in Figure 3.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Average Square Feet of House | Neighborhood | | |  |
| **Brick** | **East** | **North** | **West** | **Grand Total** |
| No | 2001.54 | 1928.11 | 2073.48 | 1989.19 |
| Yes | 2031.05 | 1857.14 | 2091.25 | 2025.00 |
| **Grand Total** | **2014.00** | **1916.82** | **2080.77** | **2000.94** |

Figure 3: Average Square Footage by Construction Type and Neighborhood

Out of curiosity, I created a more in-depth chart to represent both the average square feet and average housing price by neighborhood and construction type. The Pivot Table in the next figure includes the average square feet into the table reflecting the average square feet of the homes in the particular neighborhood areas and their average price by construction type.

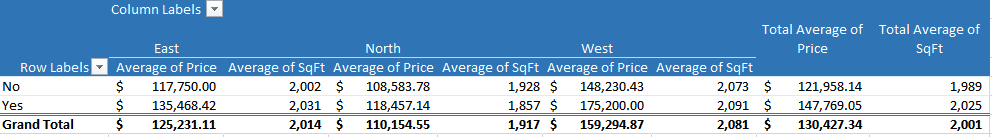


Figure 4: Average Housing Price and Square Feet by Construction Type and Neighborhood

The following table shows the same information as Figure 2, but listed by neighborhood on the left-hand side and then by Construction Type and the average house price and average square feet.

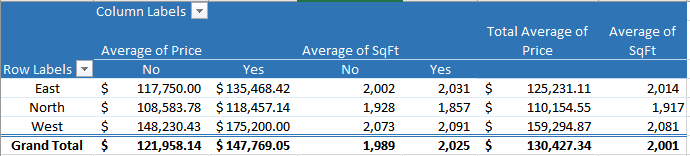


Figure 5: Average Housing Price and Square Feet by Neighborhood and Construction Type

# Data Visualization

Now that we can see the details about the housing prices in certain neighborhoods by both average square feet as well as type of construction.

The pivot chart shown in Figure 6, the average housing prices by neighborhood and construction type. You can see the different scale of the y-axis in this chart reflecting the average home price.

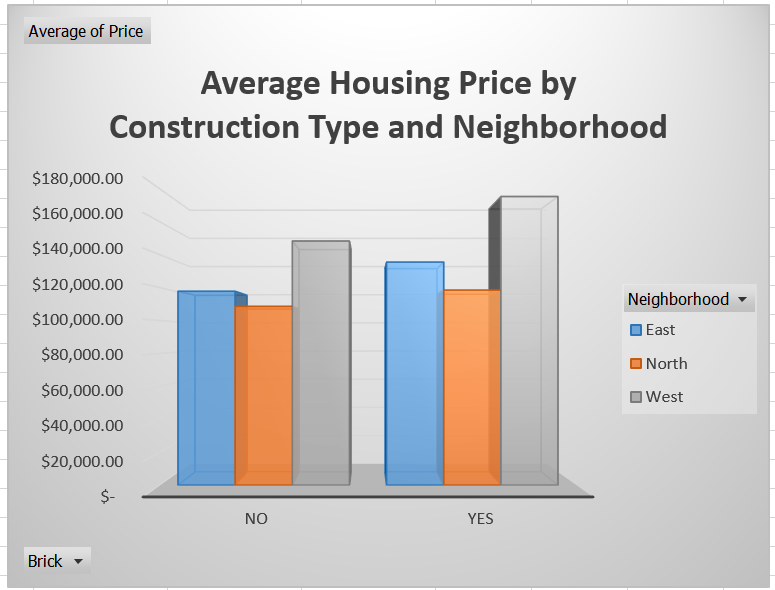


Figure 6: Average Housing Price and Square Feet by Neighborhood and Construction Type

In Figure 7, we have represented the average square foot of the homes by neighborhood and if the construction is brick (Yes) or not brick (No).

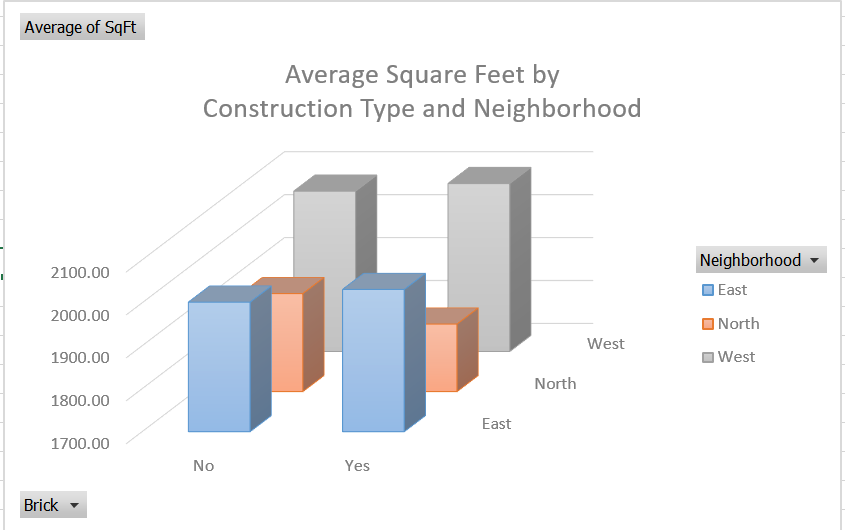


Figure 7: Average Square Feet by Construction Type and Neighborhood

# Correlation Analysis

It is important to review and determine if there are any correlations between the input quantitative variables (square feet, number of bedrooms, number of bathrooms, offers) and the dependent variable which is the housing price. We can make these determinations by looking at descriptive statistics on the data set provided.

I ran correlation statistics on only the quantitative (continuous) variables which were the following:

* Square Feet
* Number of Bedrooms
* Number of Bathrooms
* Offers
* Price

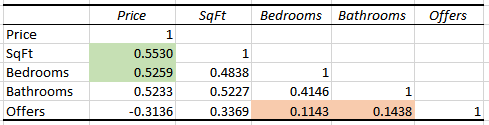


Figure 8: Initial Correlation of Housing Prices Data

As shown in the previous figure, the numbers (not the 1’s) in the table are our correlation coefficients. This information simply provides the relationship between two variables, but does not give us the statistical significance of that correlation (descriptive statistic) in the overall model.

To explain the data in this table, there is a largest magnitude correlation between square feet and price (0.5530) as well as number of bedrooms and price (0.5259). There is a smallest magnitude correlation between number of offers on the house and number of bedrooms (0.1143) as well as number of offers on the house and number of bathrooms (0.1438).

### Overall Correlation Conclusions

The information found as the result of running these correlations indicate that square footage and number of bedrooms has a large correlation on the price of the home. This, in my opinion, is intuitive, as we would expect to see that the higher the square footage, the more expensive the home. It is also intuitive that with more bedrooms are more desirable which is also indicated by the correlations. Alternatively, the number of bedrooms and bathrooms has very little to do with the number of offers made on this house indicated by their small correlations.

# Regression Analysis

Now that we have done some initial correlation and descriptive statistics on this housing data, we need to look at the statistical significance of certain independent variables and how that affects the dependent variable (price).

The regression analysis was completed for the quantitative variables that were used in the correlation analysis in the previous section; however, here we have noted that the independent variables that we are trying to use to predict or determine the dependent variable which is the price of the home.

* Independent Variables
  + Square Feet
  + Number of Bedrooms
  + Number of Bathrooms
  + Offers
* Dependent Variable
  + Price

The output from the regression analysis done in Microsoft Excel is noted in the following figure.

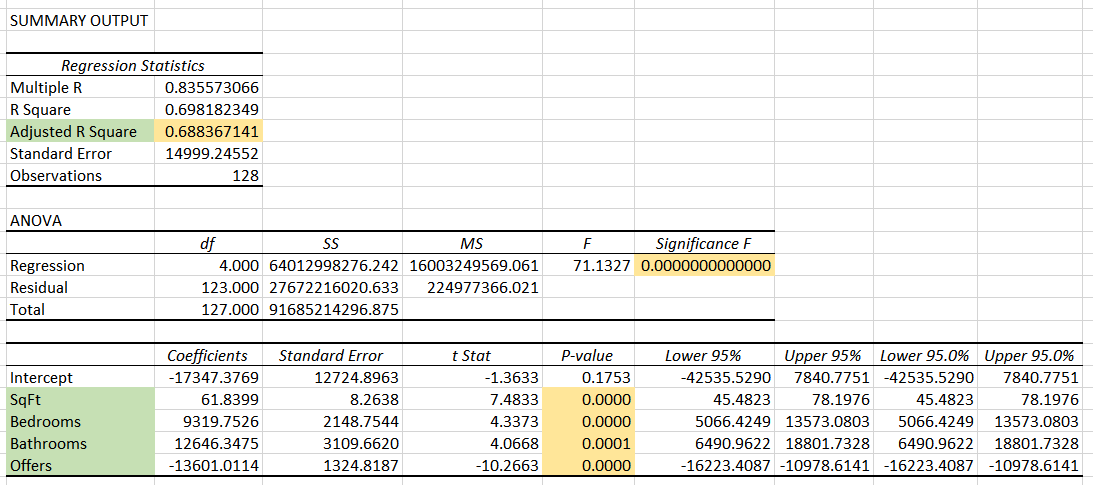


Figure 9: Regression on Quantitative Variables Only

Reviewing just the quantitative variables, we see a fairly strong Adjusted R Square (0.68836714) which is the appropriate R square to use if you have multiple independent variables. However, it is not as strong as I would like to see in a model. You will also see that the model shows a very small *Significance F* (well below an α = 0.05) in the ANOVA model which represents that the model is statistically significant.

Since all of the independent variables show a *p-value* of below the desired α of 0.05, this would indicate that all variables are significant in the prediction of price. The number represented in the Coefficients column shows how the price is adjusted (up or down) based on the value of that variable. For example, previous offers on the house brings the overall price down where higher numbers of bathrooms, bedrooms and higher square footage increase the housing price. I believe these coefficients are very intuitive.

# Prediction Model and Sensitivity Analysis

### Prediction Model

To create the prediction model, we simply create an equation with the intercept and the coefficients for each independent variable. For example, the generic prediction model for four (4) independent variables and one dependent variable is shown below.

where:

* *Ŷ* is the predicted value
* *b0* is the y-intercept
* *b1* is the coefficient for the first dependent variable
* *b2* is the coefficient for the second dependent variable
* *b3* is the coefficient for the third dependent variable
* *b4* is the coefficient for the fourth dependent variable

This means that our prediction model for the housing price based on quantitative variables only is as follows:

You will notice that we have rounded to two decimals since the output of our model is going to be in currency. This is not necessary, but simplifies things. To use this model, you can estimate something like the following:

* What is the housing price with the following house information?
  + 2500 square feet
  + 3 bedrooms
  + 2.5 bathrooms
  + 2 offers

The result would be as follows:

Which yields a predicted housing price of $169,625.73.

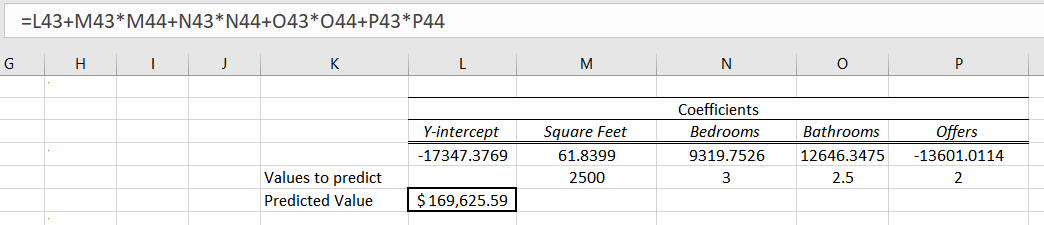
Doing this in Excel looks something like that shown in Figure 10. 

Figure 10: Prediction with Excel for Regression with Quantitative Variables Only

*\*\* Not sure if he wants residual analysis as well. Unclear on this one \*\**

### Sensitivity Analysis

For the two-way sensitivity analysis, we selected to look at price when the square feet and the number of bedrooms varied. The resulting analysis is shown in Figure 11.

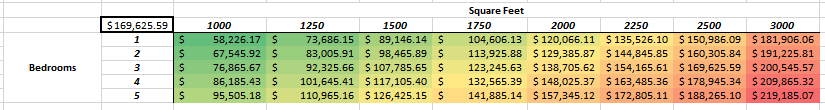


Figure 11: Two-Way Sensitivity Analysis with Varying Square Footage and Number of Bedrooms

To further our analysis, we performed a few different combinations of the independent variables.

# Results and Conclusions