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Title: The Pricing of Lake Lots

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Abstract:

This paper examines aspects of lakefront property pricing, particularly on the effect of lot frontage and lot depth. This paper utilizes the hedonic pricing model to examine 80 vacant residential recreation properties along Lake Michigan in northwest Michigan. Typically, the amount of lake frontage has been an key determinant in the value of a particular lot, although it is generally assumed to be the only factor in this rule-of-thumb application. However, the total depth of the lot also plays a likely factor, so this study seeks to determine how much these two key attributes affect the total value among other attributes. The lots examined had a median value of \$215,000 with a wide range from \$25,000 to \$600,000.

The results show that the quality of beach appears to play a role in lake lot pricing. A lot situated directly on the lakefront or on a bluff directly overlooking the lake also had an important positive effect on the price, which reinforced common knowledge about that key attribute. However, this is not a linear relationship as it is typically applied to valuing lake lots. On the other hand, lot depth had a positive effect on value for lakefront properties not on the bluff, but a varied effect on property values for lots situated on the bluff. This was due to the larger size of these lots that may have negated any additional value gained by more depth. Since the lot depth variable seemed to only have an effect on very small ranges that were beyond the minimum acceptable building size, this was concluded to have no role in determining pricing of bluff lots. When comparing the two property types, the study finds that lake-level, lakefront lots are worth more than bluff-level, lakefront lots.