

Brokers' list price setting in an auction context (Forthcoming on International Journal of Housing Markets and Analysis)

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Abstract

Purpose - The role of list price is often discussed in a narrative describing sellers' preferences or sellers' price expectations. This paper investigates a set of list price strategies that real estate brokers have available to influence the outcome of the sale, which may be many times self-serving.

Design/methodology/approach - By analyzing real estate brokers' arguments on the choice of list price level, a couple of hypotheses are formulated with regard to different expected outcomes that depend on list price. We empirically test two hypotheses for the underlying incentives in the choice of list price from the real estate broker's perspective: (1) lower list price compared to market value leads to higher sales price, (2) lower list price compared to market value leads to a quicker sale. In order to investigate the two hypotheses, we adopt different methodological frameworks: hypothesis 1 is tested by running a classical hedonic model, while hypothesis 2 is tested through a duration model. We further test the hypotheses splitting the full sample into two different price segments: above and below median list price.

Findings – The results show that hypothesis 1 is rejected for the full sample as well as for the two sub-samples. That is, contrary to the common narrative among brokers that underpricing leads to a higher sales price, underpricing lower sales price. Hypothesis 2, however, receives support for the full sample as well as for the two sub-samples. The latter result points to that brokers may be tempted to recommend a list price significantly below the expected selling price in order to minimize their effort while showing a high turnover of apartments.

Originality/value – Although there are a large number of previous studies analyzing list price strategies in the housing market, this paper is one of the few empirical studies that addresses the effect of list price choice level on auction outcomes of non-distressed housing sales.