HETEROGENEITY OF SELLERS IN HOUSING MARKET: DIFFERENCE IN PRICING STRATEGIES

Evgeniy M. Ozhegov

The housing market is a market with heterogeneous sellers trading durable goods. Like in any other market, the state of the housing market is determined mostly by its agents’ behavior. The literature related to housing demand is extensive, while much less attention has been paid to the research of the supply side. In this paper, we expand on the existing literature by focusing on sellers’ motivation.

The residential housing market is driven by two main types of sellers: private individuals (property owners) and real estate agents. The degree of sellers’ motivation may depend on various factors. Some people want to sell a property faster for different reasons: due to a job change, or because they’ve already found a new place of residence, etc. Such impatient owners usually hire real estate agents to make a deal as fast as possible. Other people are ready to wait longer, for instance, when they want to change residence to have better living conditions and did not find an appropriate alternative yet. Also, owners may not hurry with the sale when they get an apartment in the inheritance and want to sell it to receive money. In this cases, owners are likely to sell the property themselves.

Consequently, sellers are heterogeneous in motivation and have different selling strategies. This hypothesis is partially supported by preceding papers. Levitt and Syverson (2008) give evidence on the different motivation of real estate agents depending on whether they sell their own houses or provide services for sale to others. Authors also discuss the
possible difference in selling strategies of private individuals and real estate agents, however, they do not have an opportunity to test these suggestions empirically as they lack the data on FSBO sales.

The fact that the behavior of real estate agents differs from that of property owners is supported in Hendel and Nevo (2007) paper. In particular, empirical results reflect that time on the market is not the same for properties sold by real estate agents and private individuals. However, the dynamics of prices is not considered hence there is no evidence of a difference in pricing strategies across time between these groups of sellers.

Our research is based on the assumption that a seller has an option to revise the list price according to market reaction to the initial asking price. The crucial hypothesis is that different types of sellers have different incentives to sell, therefore, have different pricing strategies. In order to test this difference we use the data on the dynamics of asking prices, that is expected to reflect sellers’ motivation. We contribute to the literature on sellers’ behavior in the housing market by collecting the unique data set. It contains information about flats on sale in Perm secondary residential housing market for the period October 2014 – February 2015, so we observe the dynamics of every advertisement from placement till removal.

Another distinctive feature of this paper is that the analysis of behavior is conducted simultaneously for two groups of sellers – real estate agents and private individuals, whereas the majority of papers typically consider only one of these groups. The two-step model used for estimation takes into account endogeneity of property (offer) characteristics and nonrandom withdrawal of offers from the sample. The result of the research shows the difference in dynamics of asking prices across two main types of sellers, i.e. we evidenced the heterogeneity of sellers in terms of their pricing strategies.

While private individuals typically stop cutting the list price after the third week of listing, real estate agents continue to decrease the price until sale. This finding is explained by the fact that professional sellers have an incentive to sell as many properties as they can, since their earnings increase with the number of closed deals. Thus, we empirically prove the fact that real estate agents are, on average, more motivated to sell and hence more impatient than property owners, while previous studies just made theoretical assumptions about this characteristic of sellers.

Except explaining the effect of time on price dynamics for different types of real
estate sellers, we also found the difference in sellers’ behavior patterns along other factors such as number of clicks and paid upping. For given values of these factors strategies vary across type, which is also a pioneering finding in real estate literature.

Apart from the scientific novelty, this paper is of practical interest. For buyers it is more advantageous to buy a property from real estate agent because they set lower asking prices initially and tend to cut them greater than sellers who own the property. Buying a property from real estate agents is also more profitable, because they are well-informed about market conditions and therefore are likely to set more fair prices. At the same time property owners are often reluctant to decrease the price and are not always able to evaluate the apartment properly.