

Do Estate Agents Influence the Market?

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Introduction

- Relatively little research has been done on the nature and role of estate agents, particularly in the UK.
- But in last couple of years, estate agents have started to attract significant research interest
 - a debate is beginning to emerge in the dusty halls of academia...
 - Just what are those pointy-headed boffins saying about you?

Aim:

- Aim of this presentation:
 - To summarise two recent research studies from the US and UK and my own work on the respective topics with a view to answering the following 2 questions:

Q1/ Are EAs to blame for the frequency of extreme bids during booms?

Q2/ Does the peculiar parlance of property peddlers have any effect on the market?

- Hopefully of interest to you because:
 - It will provide an update on what the academic gossip mags* are saying about estate agents
 - Not quite Hello magazine, but...
 - The research may help inform your professional practice and strategy.
 - OK, unlikely, but you never know...
 - You may be able to help further the research:
 - Provide data – currently the main ceiling to EA research
 - Provide feedback – are these academics talking nonsense again?

* “Academic gossip mags”: otherwise known as *Peer Reviewed Journals*

Two recent developments:

- 1. Smith et al:
 - social anthropology of EAs
- 2. Levitt:
 - the Language of selling

1. Smith et al: Social Anthropology of E.A.s

- Part of a larger project trying to understand the “microstructures of markets”
 - Booms & busts not just the inevitable outcome of impersonal market forces
 - Markets are made up of people who make decisions based on their social conditioning, limited knowledge and gut feeling
- Suggest that price instability may be caused or exacerbated by estate agents:
 - Interviewed agents and house buyers/sellers during boom period in Edinburgh
 - Agents lack of knowledge appeared to add to the uncertainty of bidders => extreme bids.

Media Allegations of market fixing:

- E.g. EAs accused of suggesting that difference between asking and selling price greater than it really is,
 - Or creating this situation by adopting a strategy of setting asking price artificially low:

"It would be worrying if undervaluing a property was a tactic that was increasingly being used. Certainly the ESPC would not support that. The notion that the upset price should be a minimum that the seller should wish to realise is a good one. However, there may very well have been incidences where prices have been underestimated - it is not a science, it's an art."

Simon Fairclough, of the Edinburgh Solicitors Property Centre, quoted in "House hunters trapped in bidding war", Frank O'Donnell And Shona Darroch, *The Scotsman*, Mon 22 Sep 2003, in the context of rising proportionate differences between the asking price and selling price.

But are extreme bids simply inevitable due to the laws of statistics?

- Work by Levin & Pryce:
 - Attempt to demonstrate that a world without strategic behaviour by estate agents would not be a world free from extreme bids during boom periods.
 - This is due to laws of probability, and the fact that:
 - Selling price is not the average bid, but the maximum bid...

– If the selling price did equal the average bid:

- ↑ in the no. of bidders would *not* systematically affect the selling price.
 - Rather like taking a sample of buyer valuations: the larger the sample, the closer will be the sample average to the population average
 - » I.e. as the number of bidders rises, average bid in each auction converges to the average valuation of that house in the population as a whole.

– But because the selling price = maximum bid (not the ave):

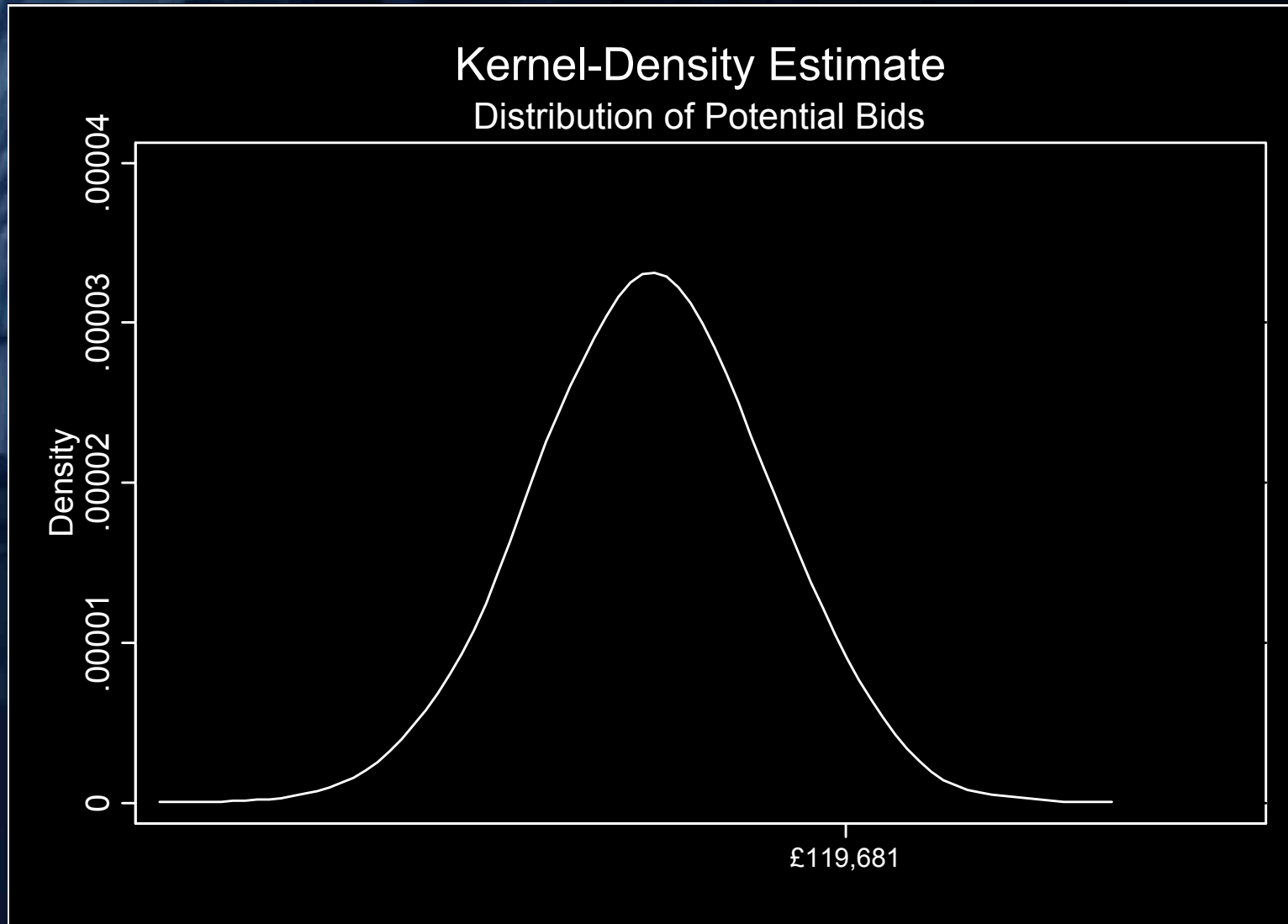
- ↑ in no. of bidders *does* systematically increase the selling price because the laws of sampling distributions are different for the maximum:
 - the larger the sample, the closer will be the sample maximum to the population maximum
 - » I.e. as the number of bidders rises, average bid in each auction converges to the maximum valuation of that house in the population as a whole (not the average valuation).

Hypothetical Simulations:

- Population of buyer values for a particular house:
 - Population = 30,000 potential buyers
 - mean = £100,000 (sd = £11,962)
- Definition of Extreme bid:
 - *one that is in the top 5% of bids that the population of potential buyers would offer for a given property.*
 - i.e. any bid over £119,681
- Goal of the simulation exercise:
 - To estimate how the chances of observing an extreme bid in a particular auction change as number of bids rises from 1 to 4 per auction.

Population Distribution of bids

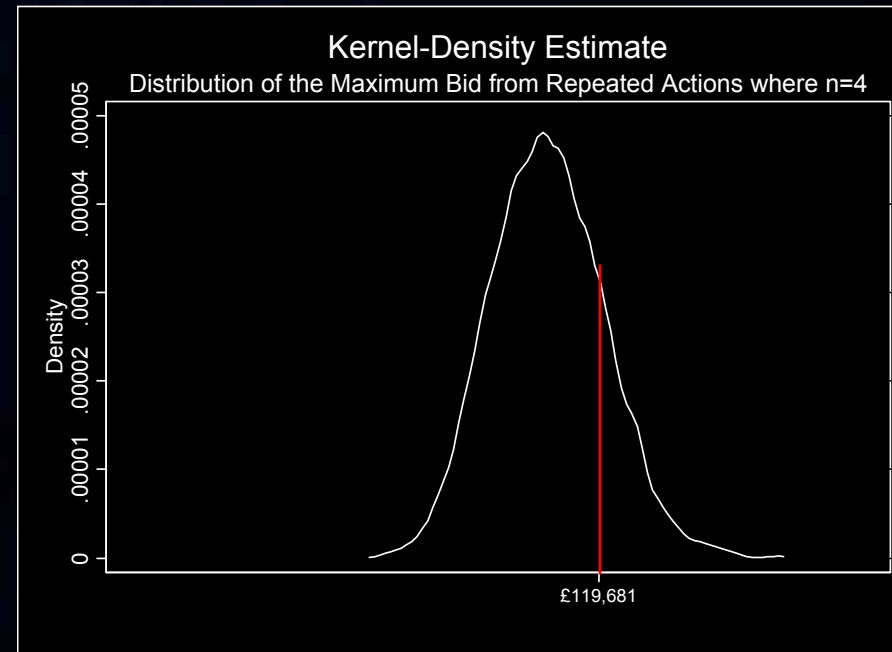
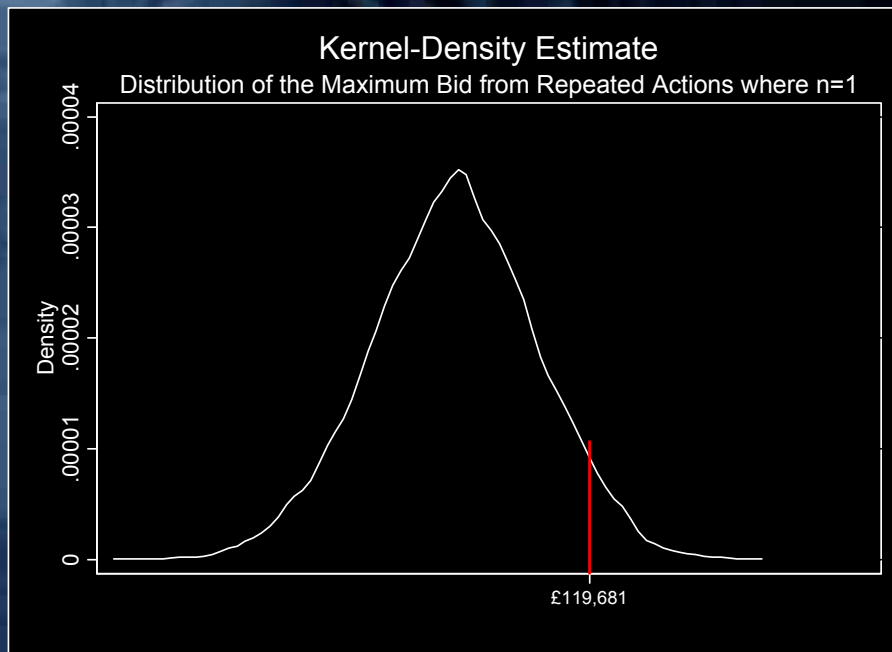
% potential bids > £119,681 = 5.00%



Distribution of Maximum bid shifts:

Single bid auctions:

4-bid auctions:



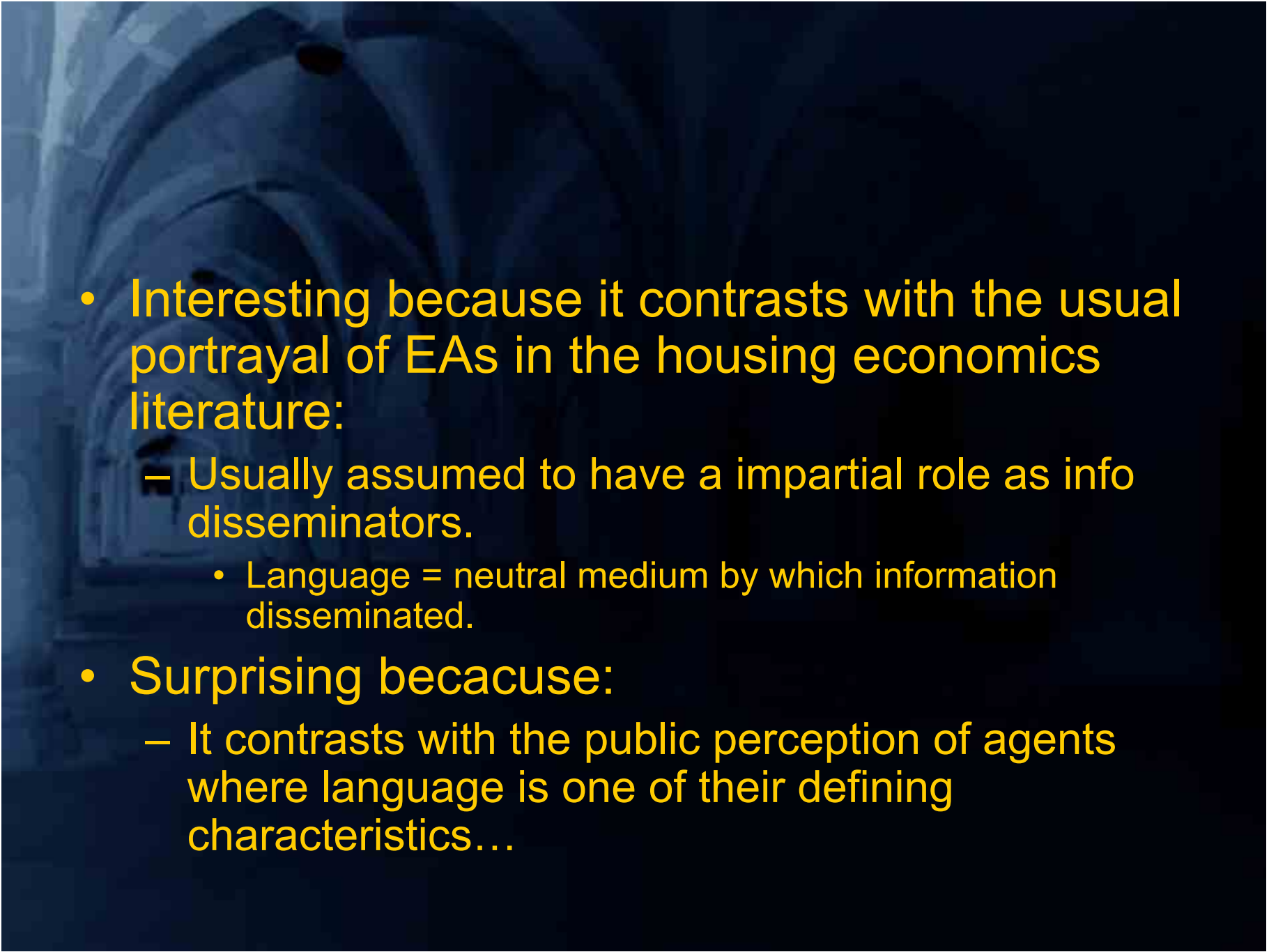
Result: The chances of the successful bid exceeding £119,681 in an auction increases from 5% to 18% when the number of bids rises from 1 to 4.

Implication?

- It is inevitable that extreme bids will be more common during booms
 - because of shifts in the distribution of the maximum bid as the number of bids rises.
- So when gauging the impact of strategic behaviour by estate agents (either hypothetically or empirically):
 - one has to measure it against a baseline regime where extreme bids are inevitable,
 - not against a world that is free from extreme bids.
 - I.e. our theory shifts the baseline against which the outcome of strategic interventions by estate agents must be compared.
- Empirical verification?
 - Need data on unsuccessful bids...

2. Levitt & the Language of selling

- “Freeconomics” best seller
 - Levit & Syverson (2005)
 - homes owned by agents sell for more, and have longer TOM (time on the market).
 - Follows a long tradition in the economics literature of quantifying the effect of incentives on broker behaviour.
 - Also include a selection of estate agent hyperbole from property adverts in their price equation
 - Fairly crude and atheoretical
 - » no real explanation re the selection of words or why they should have an effect
 - But interesting...

- 
- Interesting because it contrasts with the usual portrayal of EAs in the housing economics literature:
 - Usually assumed to have an impartial role as info disseminators.
 - Language = neutral medium by which information disseminated.
 - Surprising because:
 - It contrasts with the public perception of agents where language is one of their defining characteristics...

Language as a defining characteristic of Estate Agents

- Demonstrated by the humorous “dictionaries” of estate agent euphemism:

- *‘Benefits From:*

- *Contains a feature you may expect to be the bare minimum for the extraordinary price you are paying. Example: "Benefits from roof, floors, walls".’*

(BBC News Online, 2002)

- *‘Bijou:*

- *Would suit contortionist with growth hormone deficiency.’*
- (Ibid)

- *‘Compact:*

- *See Bijou, then divide by two.’*

(Ibid)

- 'Convenient For:
 - A deceptive term with two possible definitions depending on the object of the phrase: Eg "Convenient For A40" means your garden doubles as the hard shoulder. Whereas "Convenient For local amenities" means you can run to the shops. If you are Paula Radcliffe.' (Ibid)
- 'In Need of Modernisation:
 - In need of demolition.' (Ibid)
- 'Internal Viewing Recommended:
 - Looks awful on the outside.' (Ibid)
- 'Original Features:
 - Water tank still contains cholera bacterium.' (Ibid)
- 'Studio:
 - You can wash the dishes, watch the telly, and answer the front door without getting up from the toilet.' (Ibid)
- "'Secluded location"
 - It was in the middle-of-nowhere - barren and desolate. Suitable film set for Mad Max 5.' (Houseweb, 2006)

Stigmatisation of EAs:

- Alleged misleading use of language leads to:
 - ⇒ EAs being characterised as dishonest and greedy;
 - ⇒ a more brutal type of humour:

Question: *How can you tell when an estate agent is lying?*

Answer: *His lips move. ‘*

(Booth, 2006)

Question: *Why won't a shark bite an estate agent?*

Answer: *Professional courtesy!*

(ibid)

But does the language thing really matter?

- So long as agents are consistent in their use of language, consumers can simply “translate”
 - A few property viewings will provide buyers with the Rosetta Stone they need to decode the language of selling
- However, if agents are not uniform in their use of language (over time or space) then decoding more difficult
 - The underlying principle of modern encryption!
 - I.e. Keep changing the decode rule.

How can we measure change in language?

- Need some method of categorisation
- We draw on Aristotle's theory of Rhetoric
 - divides the act of persuasion into three categories:
 - 1. Ethos (appeal based on the character of the speaker),
 - 2. Logos (appeal based on logic or reason)
 - 3. Pathos (appeal based on emotion)

Data

(Research paper by Oates & Pryce, 2006)

- 50,000 GSPC property transactions since 1999:
 - Each record includes the short description used to advertise the property.
 - We attempt to decompose this description into Aristotle's 3 categories of language.
 - (And then into more detailed categories of pathos)

Initial findings from Broad categories:

- Ethos does not, in fact, play a significant role in the language of selling
 - we found no examples of the type, “the trusted firm of John Smith Realtors brings this property to the market”, etc.
- Pathos occurs frequently in the language of house selling, but not as much as logos:
- Logos dominates our short descriptions – the mundane listing of features

Hypotheses:

- Hypothesis 1:
 - The use of pathos will **increase as the wider urban housing market booms** and during the selling season. This is possibly due to
 - the need to ‘shout louder’ during frenetic market activity.
 - the increasing risks to buyers of not finding a property as TOM falls and/or their search deadline (e.g. school term/Xmas) looms:
 - ⇒Increases the incentive for buyers to bid on a viewed property even if it doesn’t live up to the description.
 - ⇒Increases the incentive for EAs to maximise viewings



- Hypothesis 2:

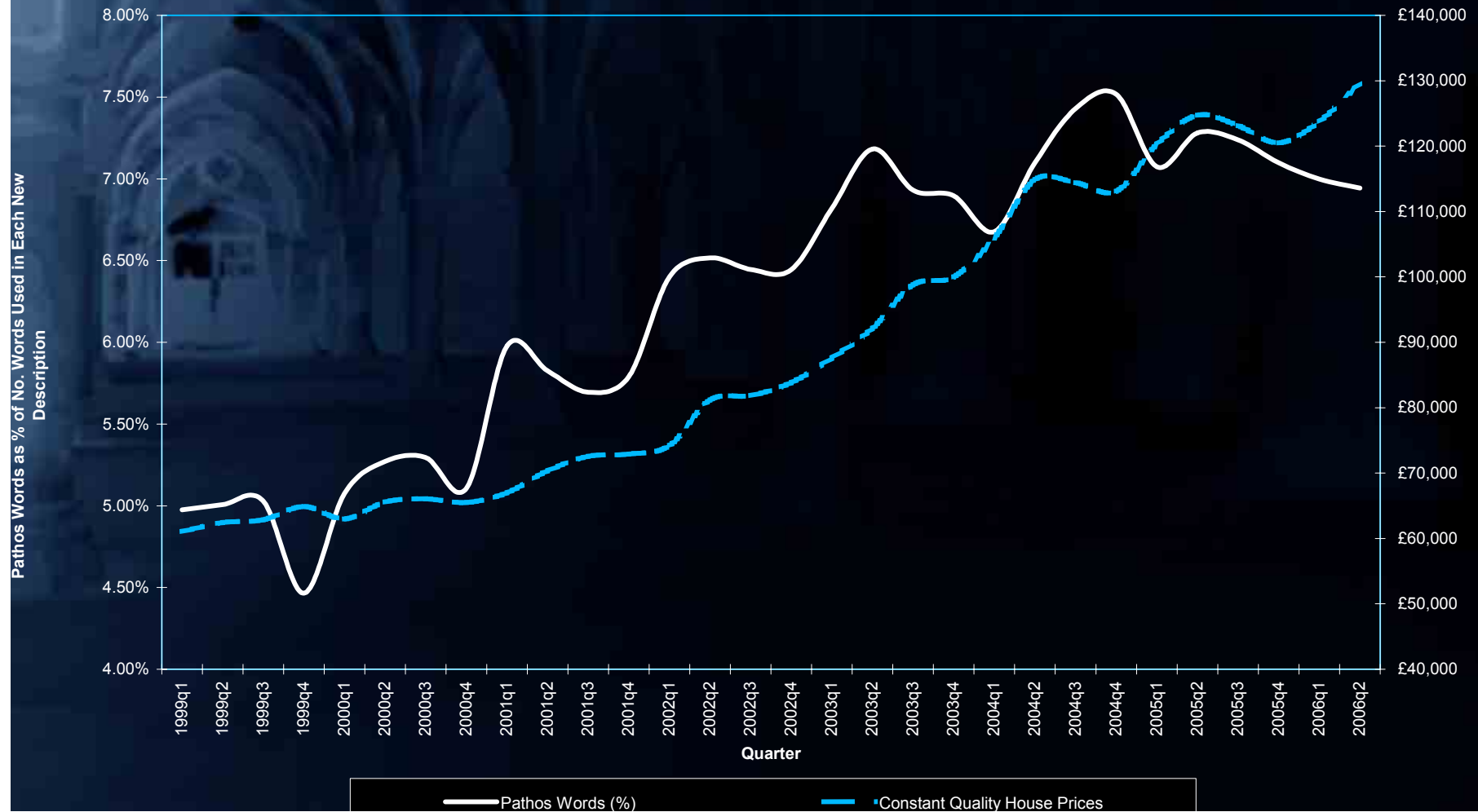
- The use of pathos, and the type of pathos, will vary over space due to **local conventions** in language and selling practice
 - conventions may be perpetuated by the dominance of local moves and the traditions of particular firms.

- Hypothesis 3:

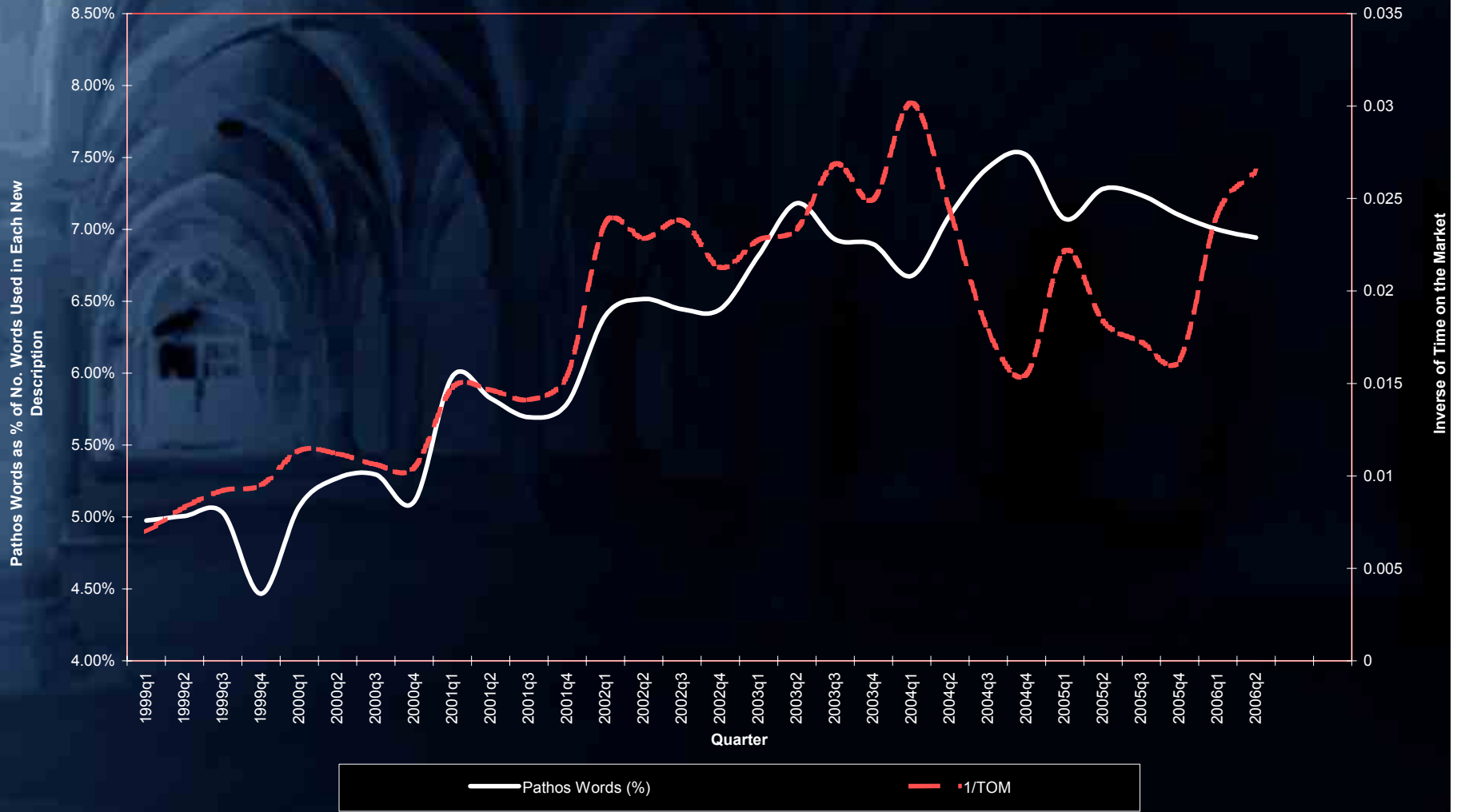
- There will be a price effect of pathos

H1: Variation over time

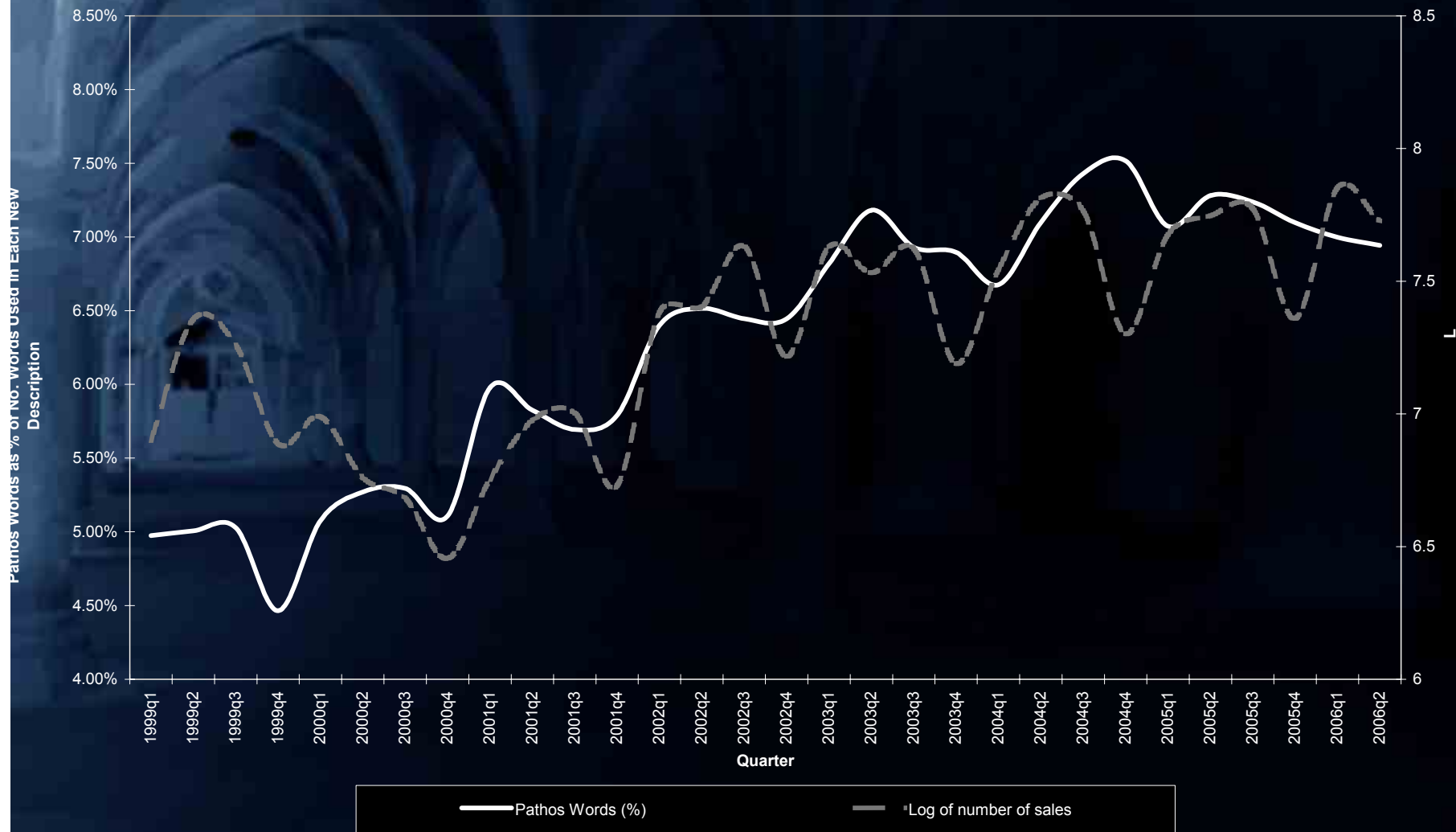
House Prices and the Incidence of Pathos in the Language of Selling



Time on the Market and the Incidence of Pathos in New Descriptions



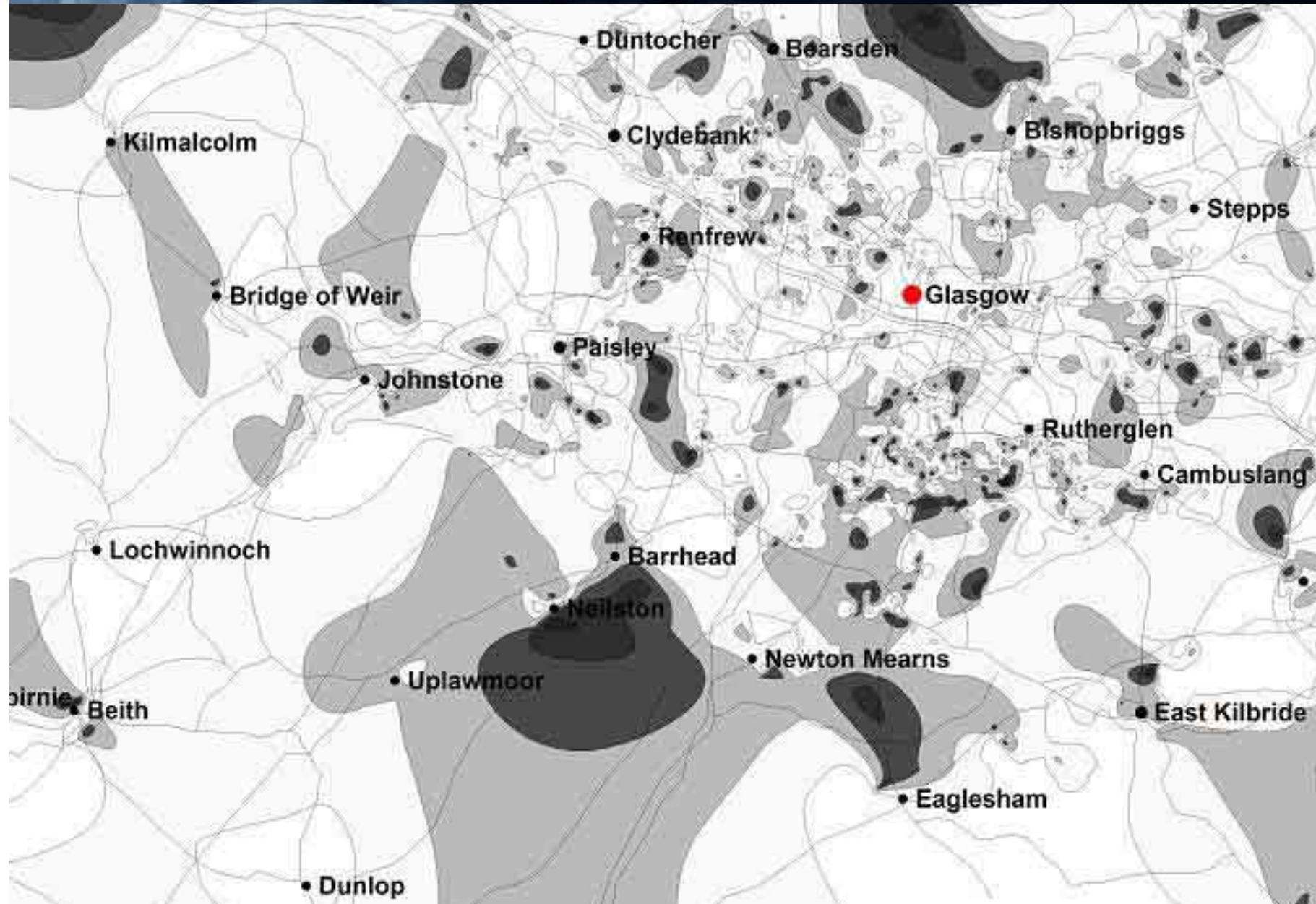
Number of GSPC Sales and the Incidence of Pathos in New Descriptions



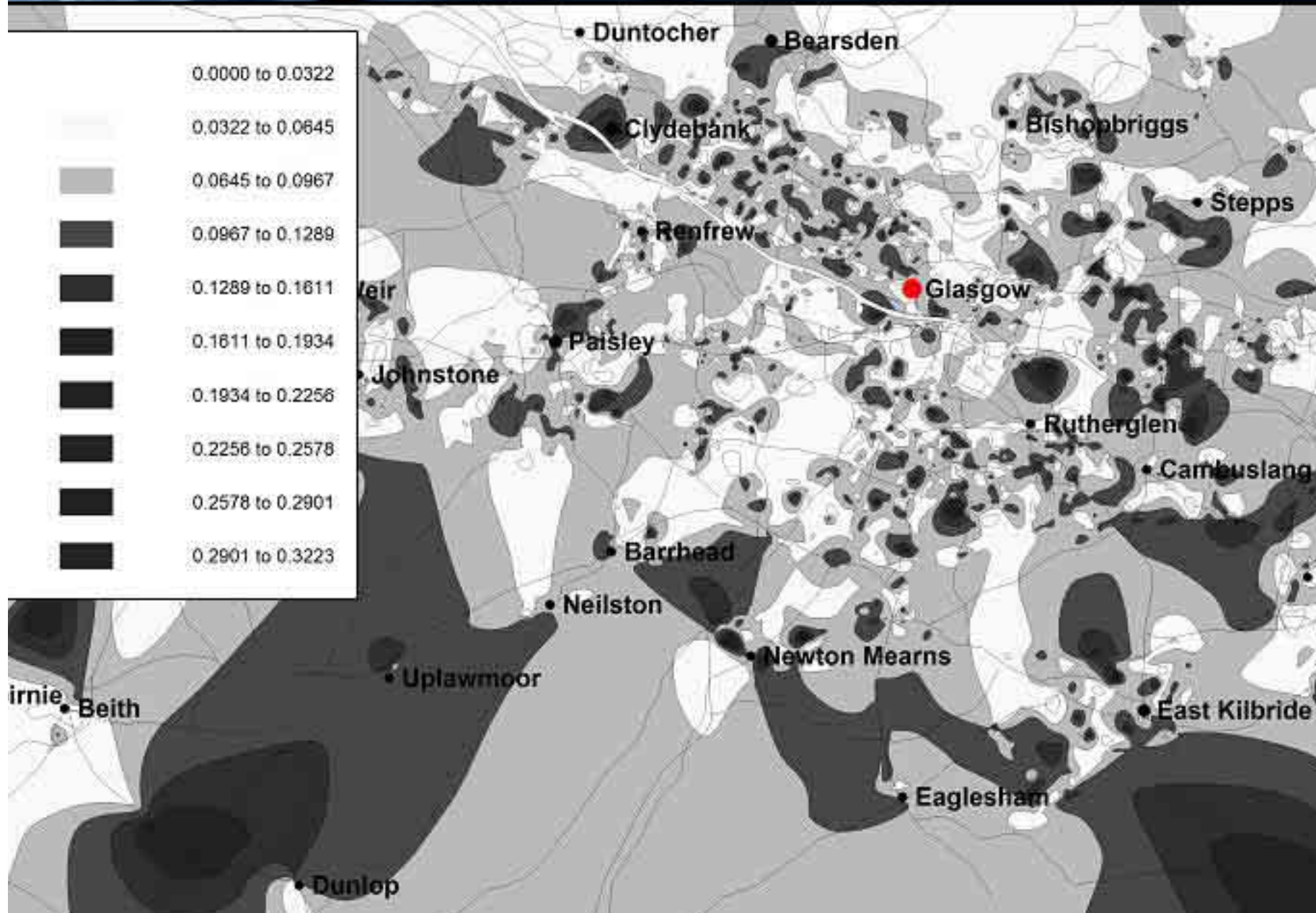


H2: What about Variation
across space?

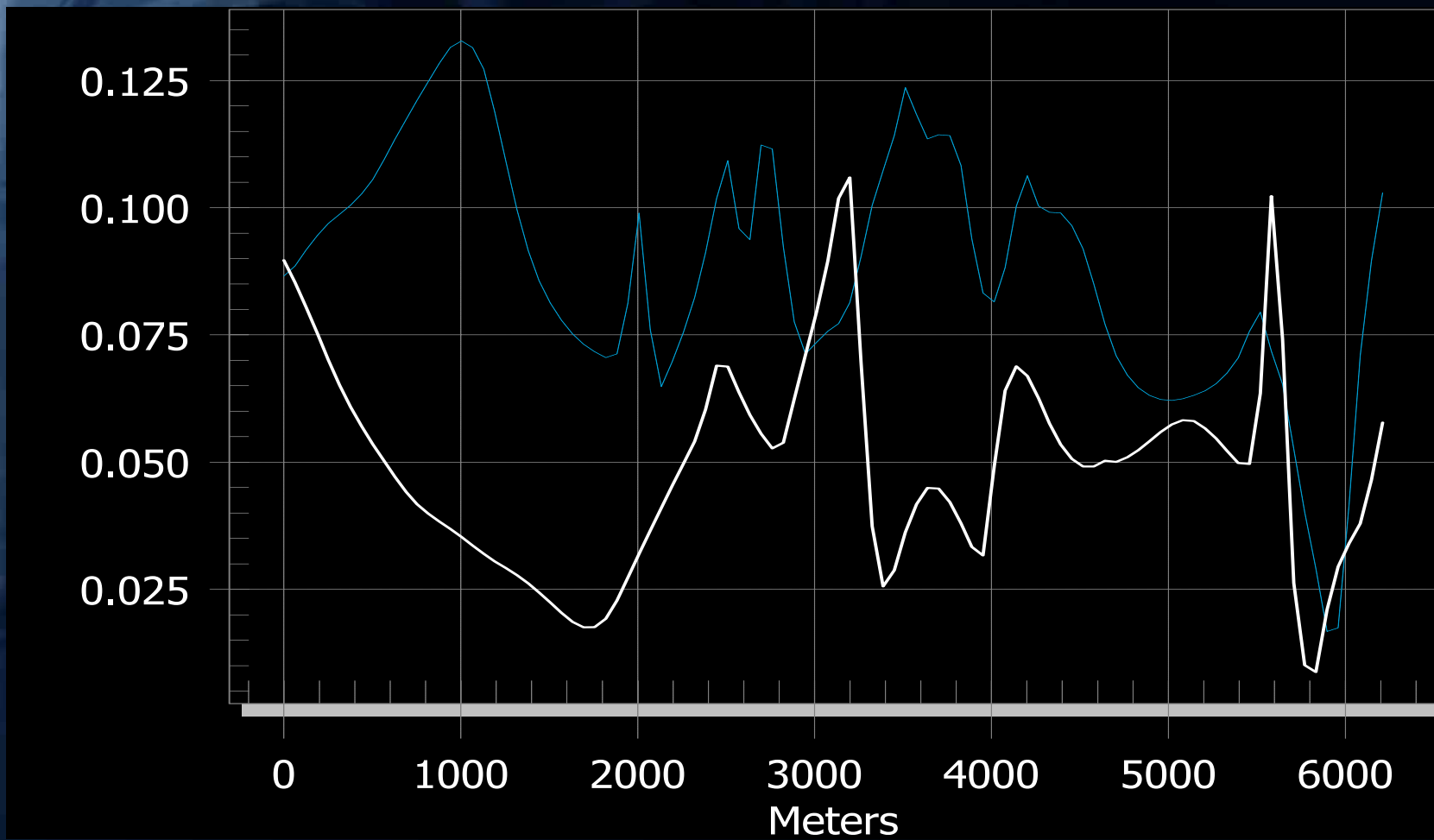
Spatial Variation of Pathos as % of No. Words (1999)



Spatial Variation of Pathos as % of No. Words (2005)



Cross-Section of the Pathos Surfaces from Bearsden to Renfrew



— 1999

--- 2005

Fractional Logit Regressions

<i>Independent Variables:</i>	Pathos (all)
	[1]
Average Time-on-the-market (months)	0.980 [§] (-9.995) [†]
Average Pathos in the area	1.126 (34.086)
deprivtn	1.004 (2.902)
cbd_glas_km	0.998 (-4.613)

After controlling for type we find:

✓ H1: Incidence of pathos changes over market cycle

Pathos↑ as market buoyancy↑ (TOM↓)

✓ H2: Persistence in Spatial Patterns of Pathos:

Pathos↑ as *average local Pathos*↑

H3: But Does Pathos affect Price?

- No-one bids without viewing, so why should pathos affect what buyers are willing to bid?
 - But:
 - If the potential buyer does not offer a bid immediately after viewing, there is a risk that he/she will not find a property within their search deadline (e.g. school term/Xmas):
 - So:
 - viewing shifts the probability of a buyer submitting a bid from zero to a positive value,
 - the more bidders on a particular property, the greater the final selling price, other things being equal

Log(Price) Regressions on Glasgow Submarkets

Variable	Strathclyde	West End	East End	South Side	North Side
Relative Pathos (Core)	0.029 (23.683)	0.035 (15.886)	0.022 (7.147)	0.025 (8.661)	0.007 (2.612)
Number of rooms	0.215 (74.607)	0.25 (46.312)	0.197 (27.394)	0.205 (41.243)	0.149 (15.91)
Lat	-0.057 (-8.566)	0.016 (0.995)	-0.245 (-14.425)	-0.028 (-2.285)	-0.226 (-11.373)

- 10% point \uparrow *Relative Pathos* in the West End, \Rightarrow \uparrow selling price by 0.35%.
 - Small effect, but there are around a quarter of observations with *Relative Pathos* of over 50%:
 - property advertised with 50% more *Relative Pathos* will sell for an 18% higher price.
 - But likely to be diminishing returns
 - as EAs use more pathos, buyers catch on and become more sceptical

Alternative Interpretations:

- *The Power of Marketing*
 - Aristotle: pathos is a potent element of persuasion
 - G.K. Galbraith: marketing shapes our notion of value
 - Not mutually exclusive: price effect could be capturing both opportunity cost of viewing effects and malleable perceptions of value effects.
- *Unmeasured Quality Effects*
 - *Relative Pathos* is actually a potentially useful to buyers as a signal of quality.
 - signal true differences in quality
 - But why the variation over time?
- NB The various interpretations are not mutually exclusive: Reality = some combination of all 3?

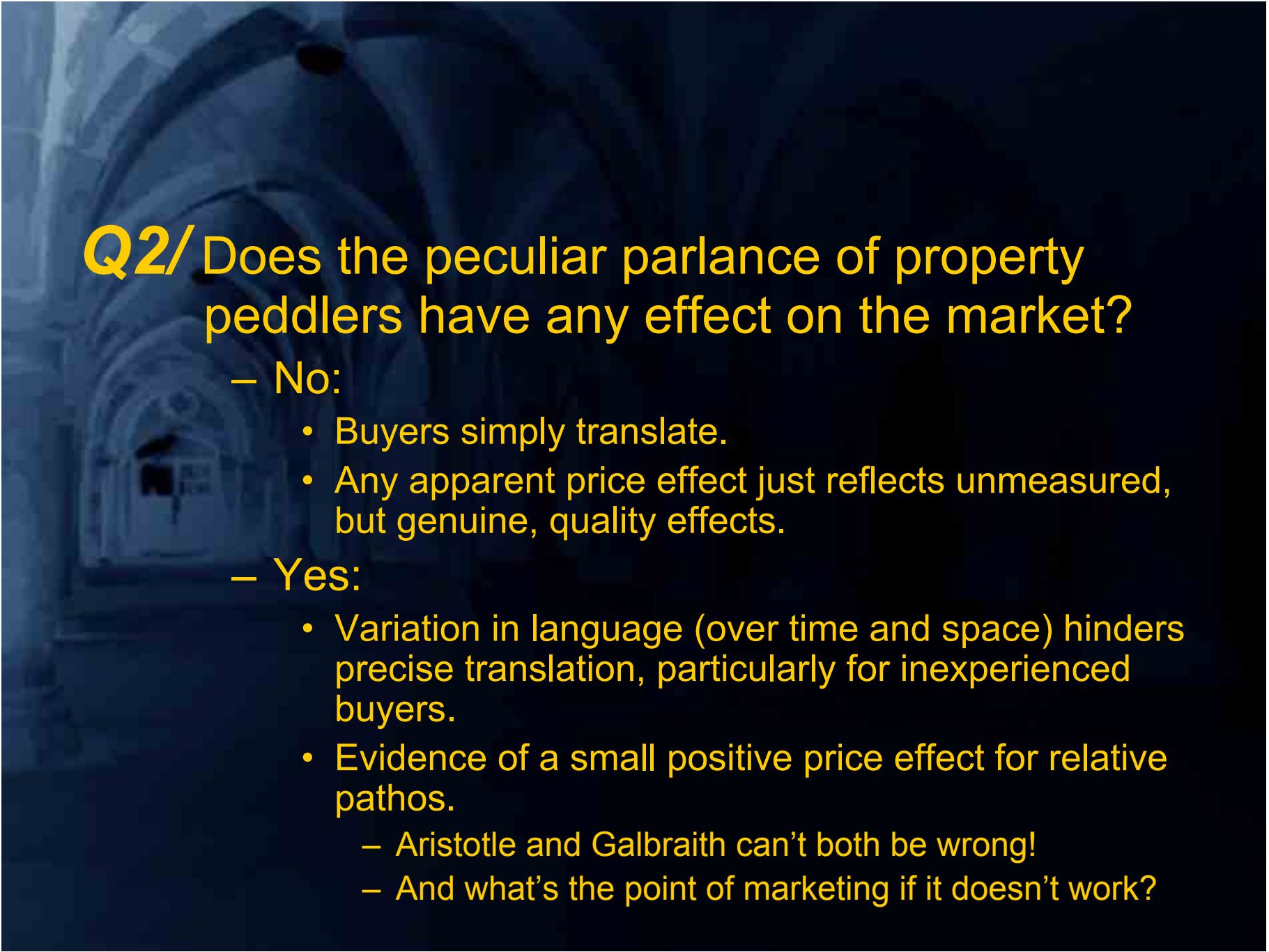
Conclusion:

Do Estate Agents Influence the Market?

Q1/ Are EAs to blame for the frequency of extreme bids during booms?

– Probably not:

- Likely to occur anyway
- Need data on unsuccessful bids to compare actual distribution with expected.



Q2/ Does the peculiar parlance of property peddlers have any effect on the market?

– No:

- Buyers simply translate.
- Any apparent price effect just reflects unmeasured, but genuine, quality effects.

– Yes:

- Variation in language (over time and space) hinders precise translation, particularly for inexperienced buyers.
- Evidence of a small positive price effect for relative pathos.
 - Aristotle and Galbraith can't both be wrong!
 - And what's the point of marketing if it doesn't work?

Call for Data & Feedback

- Data needed:
 - Unsuccessful bids
 - Transactions data with advert text
 - Sales of properties owned by agents
 - Feedback on theories, conjectures, findings
- Get in touch by:
 - Responding to the email survey
 - Reply form on homepage of www.gpryce.com
 - Or email me directly: g@gpryce.com
- More details of the analysis so far:
 - Housing Resources page of www.gpryce.com

Annex:

Method used to model Relative Pathos

$$\text{Relative Pathos} = (\text{Pathos}_i - \text{Pathos_hat}_i) / \text{Pathos_hat}_i$$

$$\text{Pathos}_i = f(\mathbf{DA}_i, \mathbf{LMB}_{kt}, \mathbf{LMQ}_k, \mathbf{LMC}_k, \mathbf{UTV}_{it}, \text{Charcount}_i)$$

where,

\mathbf{DA}_i = Vector of Dwelling Attribute variables of dwelling i .

\mathbf{LMB}_{kt} = Vector of Local Market Bouyancy variables (e.g. selling time) at time t for postcode sector k where $i \in k$

\mathbf{LMQ}_k = Vector of Local Market Quality (e.g. deprivation scores, distance to city centre)

\mathbf{LMC}_i = Vector of Local Market Convention

\mathbf{UTV}_{it} = Unexplained Time Variation (year dummies).

Charcount_i = Character count in the description (to control for the fact that the incidence of Pathos may vary simply because of random variations in the length of description).