Agent Specificity During Boom and Bust

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This study is about overpricing in the real estate market. It explores the overpriced sales prices of residential properties and provides evidence that a real estate agent has behavioral characteristics, or otherwise called agent specificities, that can decrease or increase the transacted sales price in the market, which can differ by boom and bust periods. Relying on the simultaneous relationship between the sales price and time-on-market, this study uses a nonparametric free disposal hull to extract the degree of efficiency of sales prices. The overpriced proportion of a sales price compared to the market benchmark price was defined as the information friction where the real estate agent has full undisclosed knowledge about a sales transaction. That is, residential properties that are sold at a relatively overpriced price compared to efficiently priced homes in the market can be explained by agent-specific behavioral characteristics that would bring a sales price closer or farer away from the benchmark price. This study has identified seven types of variables that would explain an agent's pricing behavior which would come from the informational advantage that an agent has over a transaction. By estimating this influence on sold single-detached homes in 29 MSA counties of Atlanta, GA, this study consistently observes that, throughout boom and bust periods, an agent's behavioral pricing pattern is static throughout multiple transactions, while the most recent one has the strongest influence in the current sales price. An agent would also overprice properties when one's presence in the market grows, while different tendencies were observed by different market conditions. When the market presence of an agent grows, an agent would increase overpricing during boom periods, but decrease during bust periods, which indicates that market inventory influences an agent's overpricing behavior as well. However, when a market is eminent to an agent, the agent would consistently overprice to keep one's foothold in the market. Similar observations were made in terms of dual agency and an agent's ownership of a property. Findings show that an agent-owned property would be overpriced during boom periods, while a decreasing trend in overpricing was observed during bust periods. Regarding dual agency, being the sole negotiator in the transaction between the buyer and seller, a dual agent would have the ability to negotiate down the sales price. All models in this study were based on a transaction trade-time that was counting the time by the sequence of each agent's sales record. This time-setting also enabled this study to measure the contribution of an agent's experience in the sales price, which showed a decreasing trend towards overpricing during bust periods. The originality of this research lies in explaining overpriced sales prices in terms of an agent's influence by applying a methodology that rarely has been applied in pricing related studies.

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