

Real estate bidding wars aren't going away

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Frenzy, frustration and disappointment are what home buyers have come to dread about real estate bidding wars.

They'd better get used to it, suggests a new study. It shows that despite some drop-off over the last decade, homes sold through bidding wars have still substantially increased their share of sales over the last two decades.

Once a rarity—representing between 3 and 4 per cent—homes sold through bidding wars tripled their [market share](#) during the real estate boom between 1995 and 2005, says the paper by two professors at the University of Toronto's Rotman School of Management.

The subsequent bust saw some drop-off. But bidding war sales still represent twice as much of market share as they used to. The study is the first to measure and analyze the rise of bidding wars in the North American market and won the 2014 Edwin Mills Award for best paper in *Real Estate Economics*.

"Bidding wars seem to partly be about the boom. But they also seem here to stay," says William Strange, a professor of [business economics](#) who holds the SmartCentres Chair of Real Estate at the Rotman School, who co-wrote the paper with Lu Han, the Petro-Canada Associate Professor of Business Economics.

The researchers used buyer and seller data from the U.S. as well as buyer surveys in Canada for the study. They found that although an increase in

bidding wars was correlated with economic and housing booms, that rise was not consistent from one jurisdiction to another. Washington, D.C. had one of the highest bidding war sales rates, with 29% of all home sales during the boom. In Houston however, that rate was just over 11%, even though the metropolitan area also benefited from the boom.

Greater restrictions on land use—preventing urban sprawl and therefore limiting housing stock— a higher use of the internet in the home search process and markets where more buyers make decisions based on emotion instead of economics were all associated with higher rates of bidding war sales. There was also a relationship between bidding war transactions and the use of [real estate](#) agents, the study found.

"The single biggest implication is that bidding wars could conceivably be part of a general process of overheating and irrationality in housing markets," said Prof. Strange. "When that's present, it can create a lot of risks, especially with a heavily indebted population."

The paper was published in a recent issue of *Real Estate Economics*.

Provided by University of Toronto

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