

Who you bargain against can impact your home price

August 3 2021, by J. Merritt Melancon



Credit: CC0 Public Domain

When putting a house on the market, who has the edge when it comes to selling for a profit?

Chances are—unless you're a full-time real estate investor—it's not you.

A new study by University of Georgia researchers found that real estate investors profited about 8% more on homes than the average [home](#) seller who is assisted by a real estate agent. Real estate agents themselves profited about 3.4% more on the sales of their own homes than the average seller.

"Homeowners only come to the market about every 10 years," said Darren Hayunga, an associate professor of real estate at UGA's Terry College of Business. "That is an average because some people live in a house for 30 years and some people live in a house for two, but the point is we're not experts in the [real estate market](#)."

Determining top home sale bargainers

Hayunga collaborated with Henry Munneke, who holds the Roy Adams Dorsey Distinguished Chair in Real Estate at UGA. They analyzed 10 years of Multiple Listing Services transaction data from the Dallas metro area to determine which buyers and sellers were the most powerful bargainers in the marketplace. They looked at properties bought and sold by homeowners, real estate agents and real estate investors.

The data set, spanning from 2003 to 2013, covers the last, precipitous housing boom, the mortgage crisis bust that followed, and part of the market's recovery.

Their research paper examining the role of bargaining in the housing market appears in the Summer 2021 edition of Real Estate Economics.

Looking at previous studies

They launched the study as a way of checking a premise proposed in "Freakonomics," the 2005 bestseller by authors Steven Levitt and Stephen Dubner. One chapter of the book analyzes home sales records and concluded that real estate agents often make more from the sales of their homes than their clients.

A subsequent academic study published by Levitt, an economist at the University of Chicago, calculated that real estate agents made about 6% more than the average homeowner. The finding could indicate a conflict of interest with agents leading their clients to sell their homes for lower prices.

"Our study is important because we control for both the trade-off between price and time-on-market, as well as the different types of properties each group might be drawn to. We also use an econometric technique capable of controlling for bargaining power. We hope these refinements in our study sharpen our understanding of these earlier findings," Hayunga said.

Prior researchers used public sales records, which do not contain information about financing, quality of the homes, information about occupancy, or often time on the market. These are factors that Hayunga and Munneke, both housing economists, see as crucial elements to consider.

Breaking down home sale profits

Modeling sales price with time-on-market, financing, occupancy status and other factors showed that real estate agents only made only about 3.4% more profit than the average homeowner. Investors made about 8% more profit than the average individual.

"What we show is that real estate agents obtain a slightly higher price

when selling their own property but it's not as large as cited in other papers," Hayunga said.

And it's not as much of a higher price as investors.

The differences in sales and purchase prices are most likely result from the way the average person interacts with residential property compared with someone in the real estate business.

Continuing their research, Hayunga and Munneke are working on a paper that looks at the role of frequently trading real estate as investment assets and its influence on price.

More information: Darren K. Hayunga et al, Examining Both Sides of the Transaction: Bargaining in the Housing Market, *Real Estate Economics* (2019). [DOI: 10.1111/1540-6229.12272](https://doi.org/10.1111/1540-6229.12272)

Provided by University of Georgia

Citation: Who you bargain against can impact your home price (2021, August 3) retrieved 9 April 2024 from <https://phys.org/news/2021-08-bargain-impact-home-price.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--