Buyers perceive greater value in homes with whole, rounded numbers in the price

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As the supply of unsold housing increases in Utah—and across the nation—and as home prices continue to fall, new research coauthored by a BYU Marriott School of Business professor has discovered under-the-

radar forces that are quietly impacting home pricing and purchasing decisions.

The new study, recently published in the journal *Organization Science*, has found that [home prices](#), including how the numbers are arranged around round numbers, can have an outsized impact on the current and future value of a home.

"Psychologically, [buyers](#) pay much more attention to left digits than right digits in a price, and consequently, prices from the last time a home sold can influence future valuations," said Timothy Gubler, associate professor of strategy at BYU. "If buyers get a 'good deal' today by underpaying for a home, this can influence what they sell the home for in the future."

Gubler's research team discovered that because people pay more attention to the left digits versus the right digits in a price, buying behavior can sometimes be manipulated. Anyone who has ever been to a store is familiar with the "charm pricing" technique where most items are listed with .99 as the last two digits on the right. This causes buyers to perceive a significantly lower price for a product, when really it is just one cent cheaper.

What most people have not caught on to is how this influences buyers' perceptions of value. Buyers perceive [greater value](#) in products that have whole, rounded numbers versus numbers that are just below these "threshold numbers." This can carry into the future if prices are [public knowledge](#), such as for [house prices](#) or products with an MSRP. For example:

- A house listed at $400,000 is perceived to be more valuable than one listed at $399,000.
- A car with an initial MSRP of $30,000 is seen as more valuable

when resold years later than one with an initial MSRP of $29,999.

The research showed that when it comes to buying real estate or other durable goods, you might want to consider paying more if it will push you over a threshold number because its perceived value will be greater in the future, resulting in more money from your investment in the long term if you resell.

His team found that houses that are listed just below a price threshold ($499,000 versus $500,000, for example) will be priced 2% less than the house that was listed on that threshold figure when reselling the property. That's about a $4,000 average loss in value for homes in Utah.

They also found that using an experienced real estate agent does not change these outcomes in a large way, which might be expected because of their role in helping determine prices.

"This concept is so fascinating because we've always considered how round numbers affect the way we perceive value in the moment of purchase, but the impact of round numbers on valuations and prices over time is not something that has been studied much," Gubler said. "Knowing that people care about rounded threshold numbers, we can leverage pricing strategies to result in higher valuations in the future. From housing prices to the initial MSRP of a product, the initial prices set in relation to these threshold numbers matter."