Behavioral real estate.
A literature review

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Presentation for ERES 2015, Istanbul
June 2015
Agenda

- Motivation & Purpose
- The rational market
- Buyers’ behavior
- Sellers’ behavior
- Real estate agents’ behavior
- Conclusions
Motivation

Purpose of the paper:

Literature review of behavioral real estate – mainly on housing market.

What is the point of view for looking at behavioral real estate?

Main research question:

What are the most relevant studies in buyers’ and sellers’ behavior?
The behavior of

Buyer

Selling

PRICE

Buyer

Real Estate Agents
The rational market

Determined by rationality in establishing the prices through fundamentals:

• income
• demographic changes
• national economic conditions.
The rational market

All information that is available to investors would be used to forecast price movements, with little or no possibility of large price variations and moreover, with limited profit opportunities.

Also, resources including access to popular regions would be efficiently allocated.

(Case & Shiller, 1988)
Buyers’ behavior

“There is no rational reason to expect real estate to be a generally good investment. It is so only at certain times and in certain places”

(Animal spirits - Akerlof, Shiller, 2010)
Buyers’ behavior

The keyword in defining buyers’ behavior is “EXPECTATION” which is developed based on past price movements, instead of actual fundamentals.

(Case, Shiller, & Thompson, 2012)
Buyers’ behavior

The short term expectation underreact to the year-to-year change in home prices.

The long-term expectation could be one of the root causes of the housing bubble with high levels.

(Case, Shiller, & Thompson, 2012)
Buyers’ behavior

Higher expectation also could mean that people would believe their house price will be better than their neighbors.

(Seiler, Seiler, Harrison, & Lane, 2012)
Buyers’ behavior

Housing price bubble could not exist in the real estate market, if there weren’t some behavioral aspects related to market participants.

(Brzezicka & Wisniewski, 2014)
Buyers’ behavior

Because of different tax changes that could occur in the future, there will be a significant decision towards acquiring a house today.

A study analyzed the Greek housing market between 2004-2007 and discovered that home-buyers were informed about the new tax regulations and considered that prices would continue to rise, thus buying houses.

(Triantafyllopoulos & Kandyla, 2010)
Buyers’ behavior

Conspicuous consumption – the Veblen effect

Increase of research in housing market on the impact of Veblen effect.

Consumer behavior signaling wealth are more evident where density is higher, mobility is higher and contact between consumers is increased. (Lee & Mori, 2013).
Buyers’ behavior

Naming residential developments could trigger conspicuous consumption towards price premiums.

The including of words like „country” in the property name made buyers pay 4.2% more, while including words like „country club”, made buyers pay 5.1% more.

(Zahirovich-Herbert & Chatterjee, 2011)
Buyers’ behavior

Real estate purchases from CEOs of major corporations was analyzed from the conspicuous consumption point of view and the relationship and impact with future performance of the company.

(Liu & Yermack, 2007)
Sellers’ behavior

Sellers set reservation prices that reflect their strategies, but reservation prices are almost always unobservable.

(Haurin, McGreal, Adair, Brown and Webb, 2013)
Sellers’ behavior

Standard search model
- Normal housing market
- List price > sale price

Auction-like model
- Boom market
- List price < sale price

(Haurin, McGreal, Adair, Brown and Webb, 2013)
Sellers’ behavior

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(Haurin, McGreal, Adair, Brown and Webb, 2013)
Sellers’ behavior

Increase in homeowner's perceptions of house prices relative to true market conditions predicts a decrease in sale volume.

(Ehrlich, 2013)
Sellers’ behavior

Optimal selling period = properties selling with shorter time period (90 days) are frequently either at or above list price.

(McGreal, Adair, Brown & Webb, 2008)
Real Estate Agents’ behavior

A study related to internet based guided audio/visual tour of a typical house for 1594 potential homebuyers looked on three real estate agent characteristics:

• attractiveness,
• gender and
• hyperbolic rhetoric: extra words, opinions, oratory).

Thus, there were 8 types of real estate agents, from which the characteristic of an attractive female real estate agent that uses hyperbolic rhetoric – could positively affect the overall opinion of the home in the minds of potential buyers.

(Seiler, Lane, Seiler, & Harrison, 2010)
Conclusions

• The amount of literature related to behavioral real estate has increase in the last 5 year

• Although the focus of studies were on the behavior of buyer, there are more and more significant studies for the seller’s behavior
Thank you!

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This work was financially supported through the project "Routes of academic excellence in doctoral and post-doctoral research - READ" co-financed through the European Social Fund, by Sectoral Operational Programme Human Resources Development 2007-2013, contract no POSDRU/159/1.5/S/137926.