

Behavioral Economics

Tutorial 8

Applying Behavioral Economics to the
Real Estate Sector

Questions to Consider

- Why is the real estate sector dominated by national brands of estate agents?
- How should real estate websites be set out and what should be the design of their search engine interfaces?
- How do buyers and sellers deal with the question of price – and will auctions affect sale prices?
- How do non-price aspects of a house affect buyers' choices?
- How might the presentation of a for-sale house (e.g. at an open home) affect its sales prospects?
- Suggestions for real estate agents when showing properties to prospective buyers?
- Relevance of personal construct psychology for real estate agents?

Why is the real estate sector dominated by national brands of estate agents?

- Economies of scale in design of selling/training systems, in advertising, office and image design, website programming, favour big brands, but often they run as franchise systems
- Brand owner has a big interest in ensuring quality, for one bad agent to harm reputation of all with the same brand
- The brand can serve as a shorthand for quality when one isn't in a position to give goodwill to particular agents with whom one has dealt in the past
- Importance of trust (since agent is providing a service to two parties with conflicting interests) and expertise: how is this to be judged by clients, especially if they have no local knowledge because they are moving to a new district
- Infrequent use of market (average every seven years) and mobility of individual agents between companies, so goodwill tends to attach to brand rather than individual agent.

How should real estate websites be set out and what should be the design of their search engine interfaces?

- Memory limitations of buyers, so enable them to outsource their memories and store details of homes of interest
- Presenting lots of alternative properties in a single page or on long scrolling menu may drive buyers into using checklists to reduce information overload, whereas if faced with a limited set of options at any moment they may be more likely to use a more trade-off approach to elimination, such as the 'additive differences' procedure.
- Search engines often seem to presume a 'tick the boxes' way of choosing: although we may expect many buyers to have sets of requirements, allowing search in terms of ranges may better accommodate those with a more flexible view of what they are looking for
- Buyers might be more flexible than they realize, especially if nothing 'ticks all their boxes', so is it a good idea to give them choice (e.g. 'Show results for adjacent suburbs, too?') rather than offering suggestions that go somewhat beyond the requirements they have listed?
- Role of default settings if buyer doesn't tick a box when doing search

How do buyers and sellers deal with the question of price – and will auctions affect sale prices?

- Endowment effect is likely to make sellers overvalue their properties, especially in a falling market
- Assessments of what seems reasonable (and hence whether a price implies a bargain or rip-off – cf. Thaler on transaction utility) are made relative to prices of other properties – so choice of reference point is rather important, and adjustment to appropriate reference points may not be instantaneous for those new to an area
- Where renovations are needed, how well will prospective buyers be able to assess likely financial and hassle costs, especially given likelihood of heuristics kicking in when knowledge is absent – ‘grand designs’ problems from wishful thinking, over-confidence bias
- Auctions preclude careful calculation and may be effective for achieving higher prices where there is competition between buyers (A status battle? Bidding more as a means for assuring one’s dreams, maintaining constructs, avoiding anxiety of continued search and bidding in market → impulsive acts)
- Use of self-control strategies by buyers who anticipate over-bidding dangers – e.g., via setting well-defined upper limit agreed with partner

How do non-price aspects of a house affect buyers' choices?

- In a large city, with thousands of homes for sale, it may be possible to find one that 'ticks all the boxes' without breaching one's budget, especially if there's no hurry to buy
- Failure to meet non-price standards (e.g., not enough bathrooms, too much renovation to do, yard too big/too small, not single floor) can be decisive, and lowering the price won't increase willingness of such a customer to buy it if products that tick more/higher priority boxes are available too

How might the presentation of a for-sale house (e.g. at an open home) affect its sales prospects?

- First impressions matter (and Kahneman thinks final impressions do, too), as subsequent construing will be affected by initial anchor, so scruffy driveway/entrance area may be rather significant
- What associations can be triggered in the buyer's 'associative memory' by smells, household items, etc., about the kind of life an owner might expect to enjoy?
- Put some furniture in unoccupied houses: construing size is hard without reference points for size
- Ensure 'cosmetic' repairs are done before showing home: if not, associative memory may lead to inferences that there has been more general neglect or bigger problems lurk unattended

Suggestions for real estate agents when showing properties to prospective buyers?

- Don't overload the client with more than 7 ± 2 properties in quick succession (unless there is a good strategic reason for causing confusion that results in the client losing track of what they've seen earlier)
- Strategically frame the property that you really want to sell relative to decoy property that makes it look really good value (cf. discussion of decoys in Ariely's *Predictably Irrational*)

Relevance of personal construct psychology for real estate agents?

- Sociality Corollary: if client sees the situation differently from the agent, opportunities may be missed (e.g. due to different sets of construct axes, different constructions of a given issue, such as 'low maintenance')
- Anxiety of client, e.g., about hassles involved in fixing up a place that isn't yet quite right
- Guilt of client as barrier to purchase, e.g. about how they'd have to rip up perfectly functional interior features to make the house like they want it to be – such activity may be inconsistent with how they see themselves