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Principles, Practices and Pricing

By Jack C. Harris

Academic Studies Offer Insights

Academic conferences provide a sneak preview of the latest research in a field. At these gatherings, researchers first present their findings and solicit feedback from other researchers. This is but one step in the time-consuming process known as peer review, which prevents flawed and incomplete studies from being presented as fact.

At the 2006 annual meeting of the American Real Estate Society, papers presented dealt with questions of agency and ethics, brokerage practices and home sales tactics. Key findings are discussed here.

Enhancing Public Perception

The National Association of Realtors (NAR) is working to improve the public image of real estate agents by requiring members to adhere to a code of ethics. A nationwide advertising campaign publicizes this requirement.

Nevertheless, polls consistently rank real estate professionals low on ethical behavior. James Larsen, Joseph Coleman and Joseph Petrick of Wright State University surveyed the public and real estate agents and found that 33 percent of the public respondents think real estate agents model "good" or "very good" ethical behavior. This is a significant improvement on the 20.4 percent reported on the 2005 Gallup honesty and ethics rankings of professions, a frequently cited survey.

The researchers conducted two national surveys: a telephone poll of randomly selected individuals weighted to reflect state populations, and an Internet poll of Realtors, also weighted by state population. The two surveys garnered over 1,000 useful responses.

Researchers found that the percentage of respondents who believe agents are ethical is almost identical for the public and Realtors. Those who actually used an agent have a significantly higher opinion of agent ethics compared with those who have not. Respondents generally have a higher opinion of the agents they used compared with agents in general. Furthermore, those who used agents to sell a home as well as to buy the next home hold a higher opinion of their agents' behavior.

The bottom line appears to be that the more familiar people are with real estate professionals and what they do, the higher they rank those professionals' ethics. Realtors' opinions of other real estate professionals' ethics improved as the Realtors got older and more educated, suggesting that one or two bad experiences may have soured some of the less-experienced agents.

Larsen, Coleman and Petrick point out that almost all of the Realtor respondents ranked themselves high on ethical behavior. This, they suggest, may be a reason for low interest in ethics courses offered through continuing education programs.

Agency Disclosure a Waste?

Most states require brokers and agents to make an affirmative disclosure of their agency loyalty when they engage a prospective buyer. The object, of course, is to prevent consumers from confiding information to an agent in the mistaken assumption that the agent legally represents their interests. In reality, the information could be used to weaken a consumer's negotiating position.

Jonathan Wiley and Leonard Zumpano of the University of Alabama analyzed data from the 2004 NAR survey of homebuying and selling and found that only 60 percent of homebuyers were aware of any sort of agency disclosure despite the legal mandate. They compared this result to the 75 percent disclosure reported in the 1984 Federal Trade Commission study that prompted states to require disclosure in the first place. The result is not a rousing endorsement of mandatory disclosure laws.

The researchers also found that the incidence of disclosure is even lower for those homebuyers who might be the most likely to compromise their negotiating positions. First-time buyers (54 percent), those younger than 24 (49 percent), Hispanics (55 percent) and those for whom English is not their primary language (59 percent) reported disclosure rates lower than the total sample. Generally speaking, these groups are relatively new to buying homes, and consequently less knowledgeable about working with an agent.

Wiley and Zumpano recognize that the less-than-universal rates of disclosure may reflect some respondents' lack of recall rather than the agent's failure to make one. Inexperienced buyers may be so overwhelmed with the volume of paperwork involved in a transaction that they fail to recognize the disclosure when they see it.

Scope of Business

For many years, expansion of brokerage firms into related businesses such as mortgage banking and insurance has been a prevalent trend. As more commission income is required to retain agents, brokerage firms have branched out in an effort to open new profit centers.

Researchers John Benjamin and Peter Chinloy of American University and G. Donald Jud and Daniel Winkler of the University of North Carolina at Greensboro analyzed data from the 2001 NAR survey of brokerage firms to see if this strategy has been successful.

Forty percent of survey respondents offered nonbrokerage services related to homebuying. These firms have higher revenues and net incomes with all other factors held constant. The added services tended to attract more business, but expansion had no consistent effect on profit margin. These results support the idea that offering affiliated business services can be an effective way to expand the firm, but may not make businesses more profitable.

While firms have been expanding, individual agents are specializing. Geoffrey Turnbull of Georgia State University and Jonathan Dombrow of DePaul University found that specialization in function and price range tends to be effective. They analyzed almost 1,400 home sales closed in 1996 and 1997 in Baton Rouge, La.

Agents who specialize in taking listings as well as those who sell through an agent in another firm obtain higher sales prices, all other factors held constant. Agents who specialize in selling (presumably acting primarily as buyers' agents) tend to get lower prices, thereby serving the interests of their buyer clients. Also, agents who sell houses within a relatively tight price range tend to get higher prices, suggesting that neighborhood concentration is an effective strategy.

What Does Listing Price Reveal?

Everyone is familiar with pricing that tries to make a product look less expensive by backing off a whole figure by a few cents or dollars (for example, $9.99 rather than $10). Such strategies make sense for items that are retailed at a set price. House prices, however, usually are subject to negotiation between buyer and seller. What would a seller gain by setting the listing price to make it seem lower than it is?

Marcus Allen of Florida Atlantic University and William Dare of Oklahoma State University examined the use of such "charm" pricing in home sales. They note that previous studies found that charm pricing had both positive and negative effects on the eventual sales price. They focused on how charm pricing affected the difference between sales price and listing price.

The authors' analysis was based on a large sample of home sales in the Fort Lauderdale metro area in 2000–01. The results indicate that homes for which charm pricing was used tended to sell closer to the listing price than those offered at a rounded price.

Allen and Dare concluded that sellers who use charm pricing are indicating that the listing price is close to their reservation price (the lowest amount they would accept). To them the price is fixed and they expect a minimum amount of bargaining.

In contrast, sellers who list homes at a price that represents their reservation plus a margin for bargaining tend to list at a rounded price. They expect this price to be a mere starting point for negotiation. They need a round figure only to position the property in the price range of comparable properties. A buyer knowing this might approach sellers differently depending on how the listing price is expressed.

Studies such as these in which data are gathered, analyzed and subject to comments and criticism from other experts in the field may help solve real-world problems. Research tries to explain why things happen, promoting better understanding of the marketplace and the trends affecting it.

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Research Spotlight on Brokerage

"The Ethics of Real Estate Agents: A Comparison of Realtor and Public Perception." James Larsen (james.larsen@wright.edu), Joseph Coleman and Joseph Petrick.

"Questioning the Effectiveness of Mandatory Agency Disclosure." Jonathan Wiley (jawiley@cba.ua.edu) and Leonard Zumpano.

"Profitability Through Product Expansion: Does It Work in the Real Estate Brokerage Industry?" John Benjamin (jbenj@american.edu), Peter Chinloy, G. Donald Jud and Daniel Winkler.

"Individual Agents, Firms and the Real Estate Brokerage Process." Geoffrey Turnbull (gturnbull@gsu.edu) and Jonathan Dombrow.

"Charm Pricing as a Signal of Listing Price Precision." Marcus Allen (mallen@fau.edu) and William Dare.

THE TAKEAWAY

Research findings presented at the annual meeting of the American Real Estate Society shed light on a number of real estate–related issues.

- A survey reveals that almost identical percentages of the public and real estate professionals believe real estate agents model "ethical" behavior. The public's opinion became more favorable as they gained experience with agents.
- Only 60 percent of homebuyers responding to a survey were aware of agency disclosure, despite mandatory disclosure laws.
- Brokerage firms offering nonbrokerage services related to homebuying have higher revenues, but adding the services did not have a consistent effect on profit margin.
- When "charm" pricing is used (for example, $129,900 instead of $130,000), homes tend to sell closer to the listing price than if the home is offered at a rounded price. Charm pricing could be an indicator that the seller is not open to negotiating the price.

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