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The effects of the internet on marketing residential real estate

James Scott Ford [a], Ronald C. Rutherford [b,*], Abdullah Yavas [c]

[a] University of Texas at San Antonio, 6900 N. Loop 1604 W, San Antonio, TX 78249-0639, USA
[b] Department of Finance, University of Texas at San Antonio, 6900 N. Loop 1604 W, San Antonio, TX 78249-0637, USA
[c] Penn State University, Smeal College of Business, 409 BAB, University Park, PA 16802, USA

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Abstract

This study examines how listing properties on the internet in addition to listing the same properties on the multiple listing service affects the marketing time and price of the properties. Our results, based on a sample of 48,280 residential transactions, indicate that houses listed on the internet take slightly longer to sell and also sell for marginally higher prices. These results, while small in magnitude, are consistent with our theoretical model.

JEL Classification: R20; L85; L86

Keywords: Internet; Residential real estate; Search; Marketing real estate; MLS and internet; Probit and sample selection; 2SLS

1. Introduction

In a multiple listing service (MLS) setting, a real estate agent may have the option to withhold specific properties from listing on the internet even when listing on the

* Corresponding author. Fax: +1 210 458 5958.
E-mail address: rrutherford@utsa.edu (R.C. Rutherford).

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MLS. While agents listing properties with a MLS service should prefer to have the widest exposure possible for their listings, we observe that in a large dataset of MLS listings during 1999, approximately seven percent of the houses listed were withheld from the internet. Listing on the internet in addition to the MLS should attract a larger number of potential buyers to view the properties, and the increased exposure may lead to reduced marketing times with transaction prices determined through competitive bidding. Search theory indicates that listing on the internet could be a useful strategy if it assists sellers and their agents in locating optimal trading partners in shorter time periods. On the down side, the strategy has the possibility of attracting potential buyers who could not or would not pay the seller's reservation price. The time and effort expended in working with such "window shoppers" could be significant.

Whether the negative implications could outweigh the potential benefits of listing on the internet is an empirical question to be considered here. The question in which we are interested is whether placing a MLS listing on the internet makes any difference in the selling price or the time on the market. We first analyze this question theoretically in a simple search theoretic framework. We show that due to lower search costs, the internet results in more search by buyers. This in turn increases the expected transaction price but may increase or decrease the time it takes to sell the property. We then offer an empirical evaluation of an internet listing strategy by considering its impact on marketing times and transaction prices. Consistent with our theoretical predictions, our empirical results indicate that houses listed on the internet sell for marginally higher prices but take slightly longer to sell.

In the remainder of the paper, the next section reviews recent developments in the pricing strategy literature and considers potential implications associated with agent compensation issues. The third section offers a sequential search model to study how lower search costs for internet-listed properties impact transaction prices and marketing time. The fourth section presents the empirical model and the data used to test for any impact on marketing times or prices associated with listing a property on the internet in addition to the MLS. The fifth section presents the results of the hypotheses tests and the final section summarizes the findings and presents conclusions drawn from this research.

2. Pricing strategy and agent compensation issues

In the United States, a real estate agent with MLS affiliation generally acts as the market maker for residential housing (see Federal Trade Commission, 1983a) with the dominant compensation arrangement being a fixed percentage of the transaction amount (see Anglin and Arnott, 1991). This compensation structure is a potential source of conflict between sellers and agents because the agent and the principal receive significantly different payoffs as a result of the agent's efforts to locate buyers willing to pay higher prices. Even though both the seller and the agent want the sale to occur at the highest price, the additional compensation due to the agent from a higher offer may not create sufficient incentive for the agent to increase his search