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Bargaining over residential real estate: evidence from England

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Abstract

This paper presents a new data set of individual residential property transactions in England. The main novelty of the data is the record of all listing price changes and all offers made between initial listing and sale agreement. We establish a number of stylized facts pertaining to the sequence of events that occur within individual property transaction histories. We assess the limitations of existing theories in explaining the data and discuss alternative theoretical frameworks for the study of the strategic interactions between buyers and sellers.

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1. Introduction

The sale of a house is a typical example of a situation that entails strategic interactions between a seller and a set of potential buyers. When a house is put on the market, the seller posts a listing price and waits for potential buyers to make offers. When a match between the seller and a potential buyer occurs, bargaining takes place, leading possibly to a sale agreement. At any point in time while a house is still on the market, the seller has the option of revising the listing price.

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This paper presents and investigates a new data set of individual residential property transactions in England. The main novel features of our data are the record of all listing price changes and all offers ever made on a property since initial listing. In addition, we have a complete record of visits by potential buyers, called viewings, for a subset of the transactions in our sample. We are therefore in a unique position to analyze the behavior of buyers and sellers within individual transaction histories and the extent to which the sequence of events leading to a transaction affects the sale price.¹

The picture of the house transaction process that emerges from the data can be summarized as follows. The listing price influences the arrival of offers, which ultimately determines the timing of the sale. As time on the market increases, the arrival rate of potential buyers decreases and the probability of a listing price revision increases. The longer the time the property remains on the market, the lower the level of offers relative to the listing price, the higher the probability a match is successful, and the lower the sale price relative to the listing price.

A relatively high initial listing price results in a higher sale price but also a longer time on the market. Listing price reductions concern primarily properties that have not received any offer while being on the market for a substantial period of time (in fact, a period equal to the average time to sale). Proportionally, decreases in listing price are also substantial (in fact, greater than the average percentage difference between the sale price and the initial listing price).

Almost 40 percent of sales occur at the first offer ever received. One third of the potential buyers whose first offer is turned down walk away from the negotiation. The remaining two thirds continue bargaining with the seller and are observed to make up to four consecutive, increasing offers before either they succeed in purchasing the property or the negotiation terminates without an agreement.

One-third of all matches between a seller and a potential buyer are unsuccessful. The vast majority of sellers whose first match is unsuccessful end up selling at a higher price; a few end up accepting a lower offer. The higher the number of matches in a transaction history, the higher the sale price. These are just a few of the salient features observed in the data.

To date, the lack of adequate data has limited the scope of empirical research on housing transactions.² Existing data sets typically include property characteristics, time to sale, initial listing price, and sale price. They do not contain information on the buyer's side of the transaction (e.g., the timing and terms of offers made by potential buyers), or on the seller's behavior between the listing and the sale of a property (e.g., the seller's decision to reject an offer or to revise the listing price). This explains why most of the empirical literature on housing transactions has either focused on the determinants of the sale price or on the role of the initial listing price and its effect on the time to sale.³

¹ Since our data set was constructed from sales records, it does not include unsold properties that are withdrawn from the market. We describe the main features of our data in detail in Section 2.

² This is also true for other markets where the transaction process involves search, matching and bargaining, since the lack of data on rejected offers is pervasive.

³ See, e.g., Horowitz [17], Miller and Sklarz [23], and Zuehlke [34].

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