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Why Do Houses Sell Above Listing Price?

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Why do some houses sell above listing price while neighboring similar houses do not? Is it because sellers underprice their property? Are some real estate agents particularly skilled at bringing in high value buyers, or are some sellers lucky to have high value buyers show up? Perhaps surprisingly, selling above listing price is not a market-specific or market-phase phenomenon. For example, in the Richmond, Virginia metro market, 34% of properties sold at or above the list price from 2001 to 2015, and ranged from a high average of 52% over list price in 2005 during the boom to a low average of 9% above list price in 2012 after the market crash. Weighing the roles of seller underpricing (whether purposeful or accidental), agent strategy, and luck requires a novel twist on the usual approach to analyzing such transactions.

Before addressing why houses sell above listing price, it is worth noting that selling above listing price need not mean that the sales price is higher than it would be if the listing price had been set higher. These houses may be so underpriced that the resultant selling price, while above listing price, is still below market. However, in the market examined here, houses that sell above listing price do sell at an average premium of over 1% relative to the market.

Listing Price

We begin by considering how the listing price is set. We expect sellers to set listing prices recognizing the tradeoff between the expected selling price and liquidity or speed of the sale. Those facing divorce settlements, estate resolution, or job relocation might be more willing to trade lower prices for quicker sales and use lower listing prices to signal their eagerness to buyers. On the other hand, some sellers may be ill-informed, underestimating demand. While agents advise them, not all sellers follow their advice, and agents themselves may encourage underpricing to make managing seller expectations and marketing easier.

To sort out each factor's effects, we examine residential properties listed for sale in the Richmond, VA, metro area for 1,312 brokerage offices and over 8,500 agents with an average experience of just under 13 years. Approximately 3.2% of sold properties are agent-owned, and 15% are dual agency transactions.

The analysis begins by removing agent influence on the observed listing price to obtain a measure of seller mispricing. The next stage of the study uses this measure of seller intent or market knowledge along with listing agent experience measures and observed selling strategies to sort out how sellers and agents each influence the likelihood of selling at or above listing price. The econometric model provides a measure of "luck" as well.

Summarizing several key results, we find that the price segment matters in this market. The probability of selling above list increases with house value in Richmond. But luck also matters as houses fortunate enough to be near others that previously sold above listing price are more likely to sell above list themselves. Such a discrepancy in pricing probably occurs because many buyers use nearby transactions, rather than the total market, as reference points when structuring their offers.

Seller Influence

Not surprisingly, seller underpricing (whether purposeful or in error) increases the probability of selling above listing price, with the strongest effect observed in the mid-range price segment in the Richmond market. Decisions to sell vacant or tenant-occupied houses reduce the probability of selling above list, in line with considerable existing evidence that these properties tend to sell at discounts. Limited property showings also reduce the likelihood of selling above list. Surprisingly, requiring buyer mortgage prequalification does not influence selling price, and incentives like offering home warranties actually lower the probability of selling above listing price.

Agent Influence

Agent effects provide some unexpected results as well. Extensive agent comments in the listing increase the likelihood of selling above list, but the number of pictures does not. Comments appear to be more effective than pictures in drawing the attention of agents working with high value buyers. Greater agent experience, in terms of tenure or previous sales, also increases the probability of selling above listing price. Nonetheless, sales above listing price tend to occur early in the listing contract period, evidence that luck matters as these high value buyers show up early in the marketing period during which agents have the weakest incentives to push the property aggressively.[i] Other agent strategies also have surprising effects; for example, incentives like cooperative broker commission rates or bonuses are not the key to sales above list, and dual agency transactions are less likely to sell at or above listing price.

Interestingly, agent-owned houses are less likely than client houses to sell above listing price. This is in line with broader evidence that agents do not behave the same when selling their own houses as when selling their clients' houses.[ii] Finally, luck matters. Overwhelmingly. Seller behavior, agent strategies, property and neighborhood characteristics, and market conditions only account for about 18% of the likelihood of selling above listing price in the market studied. Luck appears to be at work over 80% of the time.

What does this mean for agents?

- Underpricing to sell above listing price may not lead to higher selling price.
- Underpricing effects on selling above list vary significantly across price segments.
- Whether it is the more extensive inter-agent network or greater buyer contact marketing skills, emulating what more experienced agents do, is likely to result in higher sale prices.
- Pictures are essential to buyers, but listing comments are more important for agents working with high value buyers.
- Offering commission splits and bonuses are not effective ways to sell above listing price.
- Sales above listing price more likely occur early in the listing contract period than later.
- Good agents consider whether the strategy of selling above listing price is in the best interest of the seller.

Recommended Reading

Zahirovic-Herbert, Velma, Geoffrey K., Turnbull, and Bennie D. Waller (2020), "Properties that Transact at or Above Listing Price: Strategic Pricing, Better Broker, or Just Dumb Luck?," *Journal of Real Estate Finance and Economics*, 60(1), 53-76.

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About the Authors

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Dr. Geoffrey Turnbull (PhD – University of Wisconsin-Milwaukee) is an internationally recognized scholar who has published extensively on housing and brokerage markets, property rights issues in developed and developing countries, local public finance, and urban development. He is a Fellow of the Weimer School of Advanced Studies in Real Estate and Land Economics and recipient of the David Ricardo Medal, the American Real Estate Society's highest honor in recognition of his research and influence on the real estate discipline. Professor Turnbull serves on the editorial boards of the *Journal of Real Estate Finance and Economics* and the *Journal of Housing Economics* and is co-editor of the *Journal of Housing Research*. Dr. Turnbull also advises government agencies and firms in the technology, real estate services and real estate development industries. His previous academic positions include Professor of Economics at Georgia State University and Professor of Economics and the C. J. Brown Distinguished Professor of Real Estate at Louisiana State University.

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Dr. Zahirovic-Herbert's (PhD – Georgia State University) research interests are in the applications of consumer behavior theories to real property markets. Her research has been published in the *Journal of Real Estate Finance and Economics*, *Real Estate Economics*, *Journal of Real Estate Research*, *Land Economics*, *Journal of Housing Economics*, *Urban Studies*, *Housing Studies*, *Journal of Housing and the Built Environment*, and other related journals. She is a managing editor of the *Journal of Housing Research*. She is a recipient of the William N. Kinnard Young Scholar Award, which recognizes an outstanding young real estate scholar for works reflected in multiple publications. Dr. Zahirovic-Herbert is an active member of the American Real Estate Society, where she co-chairs the ARES women's caucus group, Connecting Women in Real Estate Research & Education.

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In addition to teaching in the Finance and Real Estate Program at Longwood University, Dr. Bennie Waller (PhD – University of Mississippi) is active in consulting, and maintains an ambitious research agenda. His consulting and research is largely focused in the area of principal-agent and housing externality issues in residential real estate and the use of automated valuation models for valuing real estate. Dr. Waller holds an active Virginia Real Estate License. Dr. Waller's research has been presented at numerous conferences including the American Real Estate Society, the American Real Estate and Urban Economics Association, the Decision Sciences Institute and Financial Management Association. Dr. Waller's research has appeared in *Real Estate Economics*, *Journal of Real Estate Finance and Economics*, *Journal of*

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[i] Claurettie and Daneshvary (2008) and Anderson, Brastow, Turnbull, and Waller (2014) provide evidence that agents' sales efforts increase as the listing contract period nears its end.
[ii] Rutheford, Springer, and Yavas (2005), Levitt and Syverson (2008), Barwich, Pathak and Wong (2017) and Bian, Turnbull and Waller (2017) provide evidence of this pervasive principal/agent problem.

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