List prices and “hot” real estate markets

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Contributions

- Models Effect of List Prices on Buyer's Bidding Behavior using First Price Auction Model
- Argues that List Prices Cause Two Effects:

  Discouragement Effect Marginal Buyers Lower their Bids Around List Price

  Inflation Effect Bidders Above List Price Bid More Aggressively

- Comparative Statistics to Situate these Effects within context of Hot/Cold Real Estate Markets
  - Two Different Measures of Market Hotness (number of customers, upper range of valuation)

Discouragement Effect

Discouragement Effect In the presence of a list price, there exists some interval of bids below the list price that are not bid.

- As more buyers are in the market, this interval decreases.
- Notes that the predicted behavior of this effect is not present in other models (Khezr and Menezes (2018), Han and Strange (2016))

Discouragement Effect

- Paper cites a "common rule of thumb" that offers below the list price are at least 5% below it. (Page 12)
- However, does not have any observational evidence to support this.
    - One possible source of data on the entire distribution of bids may be available from public records requests into instances where government have sold land.
- Proposition 1 indicates that the gap converges to $r - b_1(r)$ as $n \to \infty$.
    - My intuition, at least, would be that this gap should close to 0 as competition pushes bidders to bid exactly their type.

Alternative Measure of Market Hotness

- Section 7 notes that a “hot” market can be thought of in terms of either increased consumers or improved fundamentals (higher range of valuation distribution).
- Proposition 8 notes that under the uniform distribution, increases in these two characteristics lead to opposite changes in the bid gap.
- As such, would be helpful to include information about which better characterizes “hot” real estate markets.