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SNS RESEARCH BRIEF SUMMARY

Teaser Pricing in Housing Markets*

HOUSING MARKETS ACROSS THE WORLD experience periods when average list prices are far below average selling prices. This study analyzes the consequences and potential causes of such teaser pricing behavior. The study augments empirical results derived from a natural experiment – a voluntary reform aimed at reducing teaser pricing in Sweden – by using a theoretical model.

The consequences of teaser pricing are perhaps surprising. The average list price increases by 15 percent because of the reform, suggesting that real estate agents use teaser prices on rational grounds. The increase in the list price had dramatic effects on buyer arrivals: the number of buyers viewing the online advertisements fell by more than half and the number of visitors to the open house viewings was reduced by a quarter.

Despite this reduction in revealed buyer interest, there was virtually no effect on actual home sales. In particular, the increase in the list price did not affect the transaction price, the time it took to sell, how hard the real estate agent worked for the sale, or who the buyers and sellers were (i.e., the match quality).

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Potential welfare effects due to teaser pricing behavior are thus limited to the impact on buyers' search costs. For Sweden, this equates to approximately one billion Swedish kronor per year, or 0.7 percent of the value of homes.

The study models the causes of teaser pricing in a rational framework. Real estate agents will use the pricing strategy they expect to find most profitable. And the fact that they used teaser prices before the reform suggests that this is their preferred pricing mechanism. Teaser pricing occurs because the expected cost of using teaser prices is low for real estate agents.

Policymakers can, thus, reduce teaser pricing in the market by increasing the expected cost of using teaser prices for real estate agents, i.e., the probability and consequences of being caught using teaser pricing. The likelihood of being caught can be increased if the supervisory authorities change from reactive to proactive supervision, which is viable according to current law. The cost of being caught can be increased by introducing a pecuniary charge, as well as withdrawing licenses more often than is currently the case.

The report was presented at an SNS seminar in Stockholm on December 6, 2017. Joakim Lusensky, Association of Swedish Real Estate Agents, Staffan Tell, Hemnet, and Anna Öster, Länsförsäkringar, commented on the report.

* This is a summary of a research brief in Swedish "Lockpriser på bostadsmarknaden".



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