

Cooling Auction Fever: Evidence from the Housing Market

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Discussion by

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Summary

▶ Question

- Does underquoting lead to higher valuations due to herding?

▶ Approach

- Compare auction versus sale list price relative to comparable properties
- Compare bid intensity before and after regulation

▶ Key Results

- Comparable differential falls strongly for auction list price
- Number of bids and auction duration drops
- Frequency of jump in bids falls

▶ Comments

- Statement of Information
- Alternative Channels
- Identification

Comment 1: Statement of Information

- ▶ One price or a 10% range
 - No words or symbols
 - Not below seller's asking price
 - Must update advertising if rejected

- ▶ 3 most comparable properties
 - Sold in last 6 months
 - Or why there are not 3 comparable

- ▶ Median house price for the suburb
 - Advertise for 3-12 months
 - Cannot be more than 6 months old

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 - ▶ Reservation price
 - ▶ Education proxy
 - ▶ Hot vs cool markets

Comment 2: Alternative Channels

- ▶ Rational benchmark
 - No effect from reduced underquoting
 - Possibly increase the price

- ▶ Information/Herding Channel
 - Lower initial bids to start
 - Increase pool of participants for fever

- ▶ Endowment effect

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 - ▶ Tighter lending standards
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- ▶ Solutions
 - ▶ Consumer sentiment survey
 - ▶ Test lending directly
 - ▶ Volatility of underquoting

Comment 3: Identification

- ▶ **Selection into treatment**
 - Uncertainty over the business cycle
 - Fewer auctions due to regulation
- ▶ **Exogeneity of the shock**
 - Agents may sell most opaque homes early

Location

Arjun Paliwal, founder and head of research at buyer's agency [InvestorKit](#), says you should consider location when deciding which option to use as a seller.

"While buyers in Melbourne and Sydney tend to be familiar with auctions... those in markets like Brisbane, Adelaide and regional areas in the past haven't been traditional auction markets," he says.

Following the most recent property boom, "we will see greater quantities of properties selling under the hammer due to improved vendor confidence", he adds. "But many won't be used to this style of selling or buying."

Property type

The type of property as well as property features will help determine which sale method is suitable.

For instance, if you are selling a 'stock standard' apartment within a big complex and there are several similar properties on the market for a similar price, a private treaty may be the best option. "if this home is unique or recent sales are few and far between, an auction could help you achieve a higher price set by the market."



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- ▶ Solutions
 - ▶ Test for changes in local composition of auctions
 - ▶ Longer horizon on pre-trends

Conclusion

- ▶ Excellent insight into what causes market heat
- ▶ Breadth of data and tests to pin down herding behavior
- ▶ Helpful to rule out alternative channels