

# Confidence vs. Evidence: Identifying Competency in Real Estate Agents

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Almost all real estate agents have an infinite supply of confidence but most of the advice and recommendations they give are made with anecdotal, arbitrary, subjective, and incorrect information. This paper will provide the reader with information to quickly asses if a real estate agent is a credible expert and if that agent is using the techniques of the top experts in the field.

## Introduction

There are two simple methods used to identify an uninformed real estate agent. The first method is to discover an agent that is repeating tried and true (but incorrect) talking points, some repeated to the extent that they become memes<sup>1</sup>. The second is to examine the methodology (if any) used to make predictions of a properties' market value.

## Data

### *Talking Point: Long Market Times Lead To Low Sales Prices*

Since the mid-1970s researchers (Miller,1978; Asabere, Huffman and Mehdian, 1992; Yava and Yang, 1995) have been looking at the relationship between sales price and time on the market (TOM). The empirical evidence of the relationship has been unpredictable and inconclusive. What is interesting to note is that all of the studies showed that market time had no impact on sale price, but some showed sale price impacting market time. Even stranger, Miller's full sample model showed a positive correlation of market time on sale price.

Group	N	Mean TOM	Standard Deviation	Coefficient of TOM with Sale Price
Full Sample	91	65.0	56.1	.29
Low Price Range	37	52.4	44.4	-.24
Mid Price Range	28	61.6	55.0	.00
High Price Range	26	90.2	17.6	.145

But Miller is clear to point out that there is no apparent benefit of longer marketing periods in terms of achieving greater real selling price<sup>2</sup>. What is most clear from all of the research is that list price, the degree of overpricing, and the uniqueness of the property, are the most important factors of market time.

*Talking Point: We're #1*

In a study looking at the effects of brokerage on residential home sales (Jud, Seaks, Winkler; 1996) found that within a given multiple listing service no one group of agents or firms using common techniques offers an advantage over any other. Specifically, the number of sales of the listing agent had no significant influence on market time, nor did the number of sales of the listing office, nor did the franchise the broker firm belonged to. Additionally, homes that sold within the same broker office did not sell any faster than homes sold outside a broker office. A separate study (Jud and Winkler, 1994) shows that there are no differences among brokers in the sale price of homes within a given multiple listing service.

*Talking Point: Offering a Bonus to Selling Agents Will Reduce Market Time*

Perhaps the most naïve and damaging idea among ineffective agents is that offering a bonus or incentive to the selling agent (the agent representing the buyer) is a way to reduce market time or increase sale price. An award winning study on the impact of agent bonuses (Johnson, Anderson and Benfield, 2004) showed conclusively that offering a bonus resulted in a lower sale price (decrease of 3.6%) and a longer time on the market (35 days).

*Methodology of Price Analysis: EDA vs. CMA*

Determining the most likely sale price of a property can only come from analyzing the comparable market assets (property features) effect on observed transactions (sold properties). The most common and accepted method used by investment analysts, researchers, expert witnesses, and economists is Exploratory Data Analysis (EDA). EDA was developed by Princeton University professor John Tukey and was a groundbreaking approach to learning from data.

Working from an exploratory point of view and primarily using statistical regression analysis, the expert agent detects patterns and formulates a hypothesis from the patterns of correlation discovered. Primary to this task is to explain variation in sale price between similar properties. To do this the expert agent considers quantitative

(continuous numerical values) and categorical variables (groups an observation belongs) and then measures the effect of those variables on sale price. Once the effects of variables are known they can then be applied to the subject property. It should be pointed out that not all variation can be explained, some will be naturally random and other variation will be caused by (the not necessarily rational) human behavior of home buyers.

<b>Methods:</b>	<b>CMA</b>	<b>EDA / Regression</b>
Nature of Analysis	Subjective	Objective
Quantification of Factors	No	Yes
Market Supported Adjustments	No	Yes
Hypothesis Testing	No	Yes
Replication Scientific Testing	No	Yes
Variance Calculation	No	Yes
Paired Sales Analysis	False Assumption of Perfect Market	NA

In comparison to EDA the Comparative Market Analysis (CMA) favored by most real estate agents, contains a very high potential for data bias because supporting data is “hand picked” by agents from a very narrow data set. A CMA does not keep the analysis of the data independent from the subject property, very often resulting in a self fulfilling prophecy. Most CMA reports do not make any attempt to make quantifiable adjustments for differences in property features and those that do typically have not been empirically verified.

## **Summary**

This paper has shown how consumers who rely on common marketing techniques and unreliable results from CMA analysis often find their homes selling for less over a longer period of time. EDA through statistical regression provides unbiased data, that when coupled with expert analysis, gives the client of a competent real estate agent additional leverage in the marketplace.

## Notes

1. "A unit of cultural transmission, or a unit of imitation." "Examples of memes are tunes, ideas, catch-phrases, clothes fashions, and ways of making pots or of building arches. Just as genes propagate themselves in the gene pool by leaping from body to body via sperms or eggs, so memes propagate themselves in the meme pool by leaping from brain to brain via a process which, in the broad sense, can be called imitation. Richard Dawkins in *The Selfish Gene* (1976):
2. Real Selling Price is the sale price minus opportunity costs.

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