

Real Estate

Strategies For Selling Your Home- Anecdotal Advice from Harvard

By Evan Kane



Professor Max Bazerman always starts the first day of his Harvard MBA class the same way. He holds up a 20-dollar bill and offers it up for auction to the class. He has two rules for this auction:

- Rule number 1: bids must be made in \$1 increments.
- Rule number 2: the runner-up must honor their bid, meaning that, although the winner will take the 20-dollar bill, the second place finisher too must pay the last bid he or she made, but receive nothing in return.

“The pattern is always the same,” he explains. “The bidding starts out fast and furious until it reaches the \$12 to \$16 range.” This is the point when those with weaker wills start to drop out. Meanwhile, like moths to a candle, the last two students get locked in. Neither student wants to be the fool who paid good money for nothing.

Suffering from ‘Loss Aversion’?

This is when students start to exhibit the same behavior as many people trying to buy or sell a home. They become

committed to a strategy that is not geared towards winning but rather towards trying not to lose. In behavioral economics this is called ‘Loss Aversion’, which refers to the strong tendency of people to avoid loss rather than acquiring gain. A very powerful motivational force, some studies have shown that the perception of loss is, psychologically, 50% more powerful than perceived gain. Combine this loss aversion with cognitive dissonance – the tendency of people to reject evidence that is contradictory to a belief – and the effect on the bottom line can be devastatingly costly.

In Bazerman's Harvard MBA class, students will continue bidding: \$21, \$22, \$50, \$100, up to a record of \$204... Indeed, in all the years Bazerman has been teaching, he has never lost a penny of that 20-dollar bill, but he does donate all the proceeds to charity.

In real life, and specifically real estate, I have seen people waste thousands of dollars and incur incalculable anguish, frustration and heartache for fear of losing the best terms. Sellers may reject multiple offers, or refuse to reduce their list price, all the while ignorant of the carrying costs of the property. Buyers, on the other hand, might endure months of excruciating commutes or marital stress rather than pay a penny more than they think the property is worth. Conversely, sellers might accept a lower offer than necessary and buyers might over-pay for a perceived dream house while ignoring alternative properties.

Avoiding Costly Decisions

Before entering in to any important negotiation like a real estate transaction, you should have a very clear idea of the costs – both financial and emotional – you will incur if you do not reach an agreement. Professional negotiators call this your ‘Best Alternative To a Negotiated Agreement’ (BATNA). By investing a small amount of time and energy in understanding your BATNA, you can better assess your reservation price or the point above or below which you will not go in a negotiation.

If Professor Bazerman's students all took the time to understand their BATNA, the cost of that 20-dollar bill would never exceed a few dollars. Similarly, albeit on a much grander scale, if you understand your BATNA in your next real estate transaction, you will avoid making decisions that are contrary to your long-term best interests.

Evan Kane is the broker/owner of WEICHERT, REALTORS® - Endeavor one of over 500 company-owned and franchised sales offices with nearly 18,500 sales associates in key markets throughout the U.S. A native of the North Shore and a member of the American Real Estate and Urban Economics Association, which is made up of economists and academics, Evan prides his company on taking a “scientific and systematic approach to the market.”

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