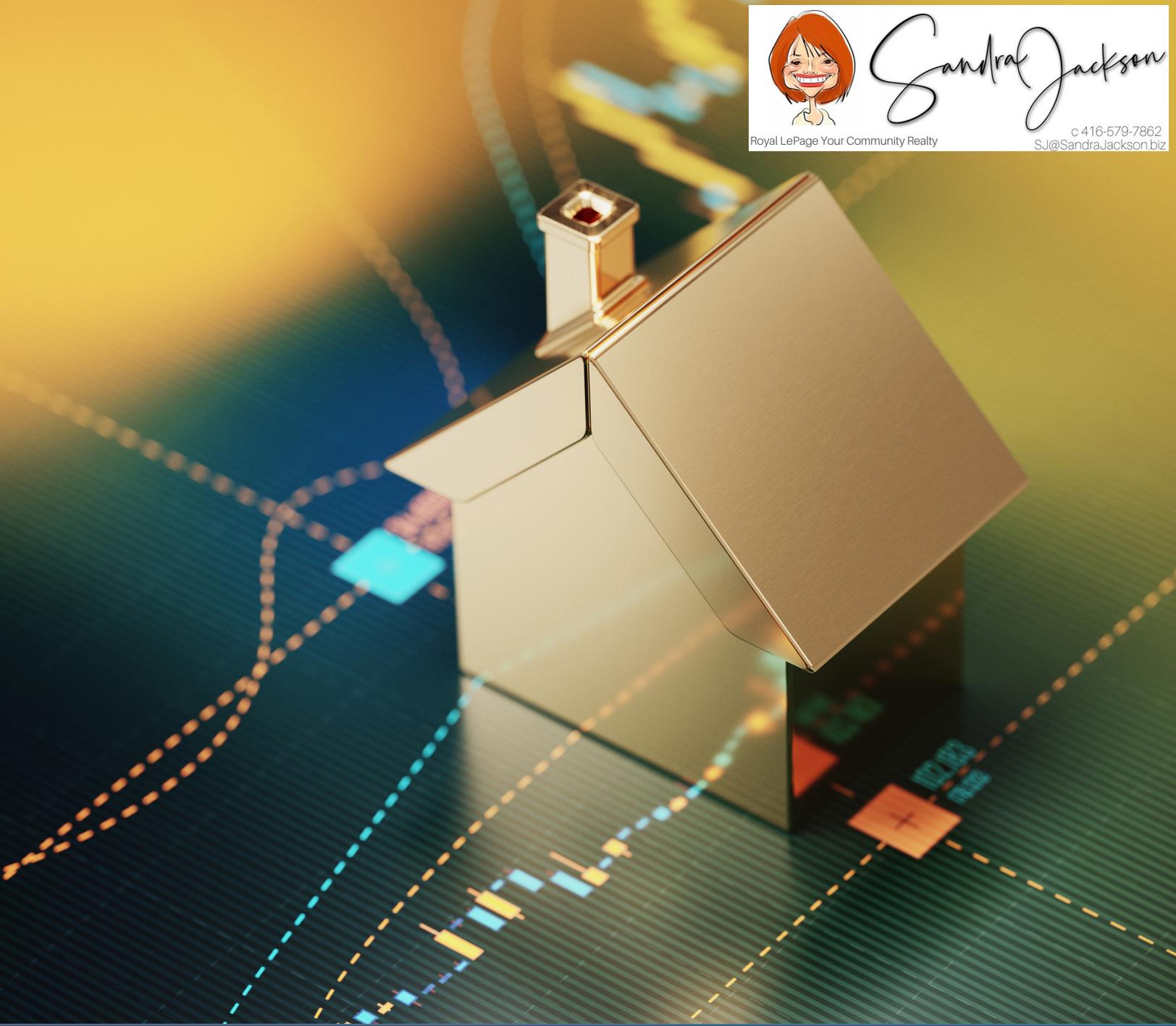




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BANNING BLIND BIDDING

WOULD IT SLOW THE GROWTH IN CANADIAN
REAL ESTATE PRICES?

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**Smart Prosperity
Institute**

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About Canadian Real Estate Association

The Canadian Real Estate Association (CREA) is one of Canada's largest single-industry Associations. Our membership includes more than 135,000 real estate brokers, agents and salespeople, working through 78 real estate Boards and Associations across Canada.

WOULD A BAN ON BLIND BIDDING SLOW THE GROWTH IN CANADIAN REAL ESTATE PRICES?

Six Key Points From This Report

1. During the election campaign, the Liberal Party ran on a promise to include a Home Buyers' Bill of Rights that would ban blind bidding, arguing that blind bidding drives up home prices. While the arguments that blind bidding processes cause higher prices are plausible, the evidence, while limited, suggests that increased bid transparency leads to higher, rather than lower, prices in a hot real estate market.
2. Sweden, which does not permit blind bidding, has experienced even faster home price growth during the pandemic than Canada, and comparable home price growth over the last 20 years.
3. New Zealand, where open English auctions for homes are common, has experienced the fastest-growing home prices in the world over the last 20 years.
4. The experience in Sweden, New Zealand, and Australia is suggestive that bid transparency can lead to *higher*, not lower, prices in a hot real estate market.
5. There is limited, though, compelling academic evidence that bid transparency leads to higher real-estate prices. Studies examining real-estate transactions in New Zealand, Australia, and Ireland, as well as studies examining land sales in Singapore and the United States, have found increased bid transparency associated with higher, rather than lower, prices, particularly in overheated markets. This could be due to several factors, including public bids creating a signal that a property is particularly valuable, in a way that less transparent bids do not.
6. The rules governing real estate bids likely do play a minor role in the average price of real estate, though this proposed reform is more likely than not to lead to higher, rather than lower, prices. Ultimately, the major factor driving up real estate prices is supply not keeping up with demand. To ensure housing is available and attainable for all Canadians, the federal government should focus on relieving the bottlenecks preventing an adequate supply of family-friendly, climate-friendly homes from being built.

WOULD A BAN ON BLIND BIDDING SLOW THE GROWTH IN CANADIAN REAL ESTATE PRICES?

Table of Contents

Acknowledgements ii

Six Key Points From This Report iii

The argument that blind-bidding leads to higher real estate prices: the bid-gap spread 9

The argument that open-bidding leads to higher real estate prices: discovery and frenzy 10

The argument that open-bidding leads to neither higher nor lower prices: the revenue equivalence theorem 12

The empirical evidence on the effect of bid transparency on the real estate market 14

Conclusion: Would a ban on blind-bidding slow the growth in real estate prices? Probably Not. 17

References 18

WOULD A BAN ON BLIND BIDDING SLOW THE GROWTH IN CANADIAN REAL ESTATE PRICES?

Introduction: Would a ban on blind-bidding slow the growth in real estate prices?

In their 2021 election platform *Forward. For everyone.*, the Liberal Party of Canada proposed the introduction of a Home Buyers' Bill of Rights. The proposal began as follows¹:

We will create a Home Buyers' Bill of Rights so that the process of buying a home is fair, open, and transparent. This will include:

Banning blind bidding, which prevents bidders from knowing the bids of other prospective buyers, and ultimately drives up home prices.

With the re-election of a Liberal government on September 20, 2021, there is a real possibility that this campaign promise becomes law. This naturally raises two questions:

1. What is 'blind bidding'?
2. Does blind bidding *ultimately drive up home prices*, as claimed, and would a ban on blind bidding lower, or at least slow the growth of, home prices?

After describing blind-bidding, we answer the second question by examining three sets of arguments; one that blind-bidding causes prices to be *higher* than systems with more transparency, one that suggests that increased transparency leads to higher, rather than lower, prices, and a third, an economic concept known as the *revenue equivalence theorem* that the level of transparency has no impact on average prices.

There are a few ways we can determine which of these arguments is most likely to be correct. We can look to the experience of Sweden, where real estate bids are required to be open. Sweden has experienced some of the fastest-growing real-estate prices in the last 20 years, showing that bidding transparency does not necessarily lead to slow price growth. We can also look to Australia and New Zealand, where open bidding through real estate auctions is common, and see that housing prices have risen dramatically in those countries as well.

Another way to answer the question is by examining the academic literature. While the academic literature on the subject is somewhat limited, it is suggestive (though not conclusive) **that increased bid transparency is more likely to lead to *higher* rather than lower prices in relatively hot real-estate markets.** Separate studies examining residential real-estate sales in Australia, Ireland, and New Zealand, along with land sales in Singapore and the United States have found increased transparency associated with increased average sales prices.

Ultimately, what drives up the price of housing is demand rising faster than supply. Only by ensuring an adequate supply of family-friendly, climate-friendly homes can Canada ensure that housing is available and attainable to all.

¹ Liberal Party of Canada (2021)

Real estate purchases as a form of auction

In a hot real estate market, such as the one experienced in many parts of Canada during the pandemic, where most properties have many interested buyers, a negotiated sale becomes a form of closed bid auction, where the house goes to the buyer who places the most attractive bid.² As such, we can think of any home sale where there is the potential for multiple bidders, as a form of auction.

Auctions can take on many forms and have many characteristics. There are two characteristics, in particular, that are relevant to the Canadian real estate market: *endpoint flexibility* and *transparency*, with the Liberal proposal focusing on the latter, but not the former.

Endpoint flexibility refers to the ability of the seller to wait for additional bidders to arrive, or negotiate with existing bidders, to achieve better terms. For our purposes, we can think of auctions either having a fixed ending or a seller-determined ending, as shown by Figure 1:

Figure 1: Endpoint flexibility in real-estate auctions

Pure Auction (Fixed Auction End)	In a pure auction, the auction has a fixed end time, at which point the winner(s) of the auction are revealed, or the auction ends without a winner.
Seller-Determined Ending (Negotiated Ending)	In an auction where the seller determines the ending time, the seller can wait for other bidders to emerge and/or can negotiate with existing bidders to alter their bids. While the auction itself has no fixed end-time, the bids themselves may expire after a period of time.

Our second characteristic, *transparency* refers to the amount of information bidders receive about the other bidders that are participating in the auction, as shown by Figure 2:

² The most 'attractive' bid need not be the one that is the highest price, as sellers may prefer a lower priced bid for a variety of reasons, including the conditions placed on that bid.

Figure 2: Three forms of bid transparency in an auction

Open Bidding (English Auction form)	The most common form of an open bidding auction is typically referred to as an <i>English auction</i> . In an English auction, bidders are made aware of the relevant details of the bids made by other potential buyers and are allowed to alter (increase) their bids in response to bids placed by other participants in the auction.
Sealed Bidding	In a sealed bid auction, bidders submit bids for the item, without knowing the identity or number of other bidders, nor the details of their bids. In a true sealed bid format, bidders are not allowed to revise their bids.
Blind Bidding	Van Rhijn (2019) describes a blind bidding system as one where “buyers make an offer on a condo or house based on their estimation of the value and what they expect others might offer for it; they know how many offers have been made but not the value of those offers... Often, they’re given one opportunity to improve their offer, and that’s it.” A blind bidding format can be thought of as a less-restrictive version of a sealed bidding system. Like in sealed bidding, the value of competing bids is not revealed to prospective buyers, but unlike in a true sealed bidding system, bidders are allowed to revise their bids and are informed about the number of other bidders. Unlike pure sealed bidding, there is an element of negotiation in blind bidding.

We can combine our two characteristics to create a taxonomy of four real-estate auction types, as shown by Figure 3:

Figure 3: Taxonomy of Real-Estate Auction Types³

Transparency / End Point Flexibility	Pure Auction	Negotiated Ending
Private	Sealed bid auction	Blind bid negotiation
Open	Open English auction	Open bid negotiation

Currently, all four of these forms of real-estate auctions are legal across Canada. Blind bid negotiation is by far the most common, and the one that has drawn the ire of the federal government. The fixed-ending cousin of blind bid negotiation, sealed bid auctions, are common in government procurement and business-to-business sales more generally but are relatively rare in residential real estate. As well, the two forms of open real-estate auctions, open English auctions, and open bid negotiations are also relatively rare in Canada, though open English auctions are picking up in popularity.⁴

³ This list is not exhaustive, as there are many other forms of auctions, including Dutch auctions, where the auctioneer starts at a high price and progressively lowers the offered price until a bidder places a bid. However, in residential real estate markets, auction formats other than the four listed here are quite rare.

⁴ Lowe (2021)

There are very few markets in the world that have outlawed blind bid negotiation in the real estate market, with Sweden being a notable exception, where bids are required to be open. Hungria-Gunnelin (2020) describes how the open bid negotiation process works in Sweden:

[Unlike] traditional [open English] real estate auctions that take place in an auction house with all bidders present, bidding is usually made over phone, where the broker calls the potential buyers, or potential buyers take the initiative to contact the broker to place a bid. The participating bidders register their cell phone number prior to the auction start, so that they can get live updates on newly incoming bids through text messages and have the opportunity to react to these bids. Most brokerage firms also display the incoming bids on their websites. The auction usually starts the day after the showing of a home and the duration of the auction is on average three days.

Outside of Sweden, most other countries use a combination of blind bid negotiation, open bid negotiation, and open English auctions to sell homes. Although open English auctions for real estate are somewhat rare in Canada, they are quite common in other Commonwealth countries. For example, in the 2nd quarter of 2021, over 25,000 homes in Sydney and Melbourne Australia were put up for Open English auction.⁵ The majority of homes in Australia are still sold by blind bid negotiation, known in Australia as “private treaty”. Open bid negotiation sales also exist, such as on the Open Offers platform.⁶ Similarly, in New Zealand, homes are sold both through Open English auction, and through blind bid negotiation, commonly referred to in the country as the “multi-offer process”.⁷ In the multi-offer process, bidders are informed that there are other bidders, but not the content of those bids. In both Australia and New Zealand, Open English auctions are far more common for real-estate than they are in Canada, as shown by Figure 4.

Figure 4: Common Forms of Real Estate Auctions by Selected Country

Country	Form(s)
Australia	Open English auction and blind bid negotiation
Canada	Blind bid negotiation
Ireland	Open English auction and blind bid negotiation
New Zealand	Open English auction and blind bid negotiation
Sweden	Open bid negotiation
United States	Blind bid negotiation

By banning blind bidding, Canadian homeowners wishing to sell their house would need to use either open bid negotiation (common in Sweden) or open English auction (common in Australia and New Zealand).⁸ Banning the most common form of real-estate transaction in Canada would be a drastic change, and the Liberal proposal justifies the policy on the argument that blind bidding “drives up home prices”. But is that true? We can start by examining the reasoning behind the claim.

⁵ CoreLogic (2021)

⁶ Elite Agent (2021)

⁷ New Zealand (2021)

⁸ Given the lack of detail in the proposal, it is unclear if sealed bid auctions would remain legal, or be banned as well.

The argument that blind bidding leads to higher real estate prices: *the bid-gap spread*

The argument that blind bidding leads homebuyers to overpay for houses, driving up market prices is relatively straightforward to understand. The short version is that if bidders do not know what other potential buyers are bidding, then the gap between the highest and second-highest bid may be large, and had the winning bidder known what the competition was bidding, they could have ended up winning the house with a much lower offer. Harrild (2015) gives a version of this commonly heard argument, which this paper calls the *bid-gap argument* on how a lack of bid transparency leads to higher real estate prices:

Because of the lack of transparency, the 'winning' offer may be thousands and thousands of dollars more than it needs to be, because there's no disclosure of what others may be offering.

For example, Buyer A could offer \$15,000 over the listing price, Buyer B could offer \$18,000 over and Buyer C could offer \$40,000 over. These numbers aren't unrealistic, yet we see them all the time in Toronto! Instead, Buyer C could've offered just \$18,001 over the listing price and still won – which puts them out \$21,999. So, the lack of transparency made Buyer C feel like they had to make a hyper offer in order to win the bidding process.

More recently, in a May 2021 Special Report titled *Canadian Housing Fire Needs a Response*, Bank of Montreal economists Robert Kavcic and Benjamin Reitzes⁹ talked about the need for a transparent bid process to help regulate market psychology:

Implement an offer system that eliminates blind bidding in real estate transactions. This could use open bidding among agents and/or standardized escalation clauses for the price component of offers.

This would keep the sale price from settling well above the price of the next willing buyer, and keeps the comparable more appropriate for the next property to list in that location. While this won't cool the market on its own, it would limit the ballooning that we're now seeing in a very tight market.

Since buyers are unable to see the offers being made by other bidders, they may place needlessly high bids, “just to be safe”. The uncertainty, the lack of transparency, creates market psychology that causes some potential buyers to panic and overbid.

At least, that is how the argument goes. A counterargument is that open bidding can also create frenzied market psychology that can cause final bids in open auctions to be even *higher* than in closed bidding. That is, instead of taming out of control market psychology, transparency adds fuel to it.

⁹ Kavcic and Reitzes (2021)

The argument that open-bidding leads to higher real estate prices: *discovery and frenzy*

While a large gap between the highest and second-highest offer in a blind-bid (or sealed-bid) auction may suggest that the winning bidder overpaid, the truth is more complicated than that. One obvious source of complication: we do not know how much the non-winning bidders would have increased their offers had they been able to see those made by the winning bidder. Or as a 2019 article by the Toronto Realty Group¹⁰ describes the scenario:

The public, however, would love the process to allow for the listing agent to say, “The highest bid is \$1,005,000, let me know if you want to improve your bid.”

That would be great for the bidder at \$995,000, because if he was going to improve to \$1,020,000, now he knows he would be over-bidding, and instead need only go to \$1,006,000...

So what happens when the \$995,000 bidder moves to \$1,006,000? Does the \$1,005,000 bidder go home?

No. He’s allowed to improve.

So he goes to \$1,007,000.

And then the bidder at \$1,006,000 goes to \$1,008,000.

And so on.

In short, the bid-gap argument overlooks the fact that in an open bidding system, lower-ranked bidders are likely to continue to raise their bids if they can observe the amounts being offered by the leading bidder. And to use the Toronto Realty Group example, the price of the house may end up being higher than it would be under blind bidding, as each bidder thinks, “If I’m willing to pay over a million dollars for this house, what is an extra \$2000 or so?” This form of one-upmanship which is available in an open auction can lead to prices being higher than they otherwise would have been.

Skeptics of the conjecture that open-bidding style auctions necessarily lead to lower prices also note that in countries where open-bidding auctions are common, residential real estate prices have risen just as fast, if not faster, than in Canada. Sønstedt, Olausen, and Oust (2021) note that in most countries negotiated sales¹¹, rather than open-bid auctions are the norm for non-distressed/foreclosed properties. However, in Australia, New Zealand, Ireland, and Scotland, open-bid auctions are relatively common. It is noteworthy that open-bid auction formats are particularly popular for sellers during boom periods, likely due to a belief among sellers that they lead to higher prices than negotiated sales in hot real estate markets.

A cross-country comparison shows that markets with open bid negotiation and open English auctions are also experiencing substantial price increases. In the second half of 2020 and the first half of 2021, Canadian residential real-estate prices have risen by an astronomical 16%, according to data from the Knight Frank Global Price Index, as shown by Figure 5. However, their data shows that Canada’s price

¹⁰ Toronto Realty Group (2019)

¹¹ Either involving one or multiple bidders.

appreciation is only the 8th highest in the world over the last twelve months, and is behind both Australia and New Zealand, where open English auctions are the norm, and Sweden where blind bidding is not permitted, and a system of open bid negotiation is used.

Figure 5: The Knight Frank Global House Price Index Q2 2021, Ranked by Annual Change¹²

Rank	Country	12-Month Change (Q2 2020 - Q2 2021)	6-Month Change (Q4 2020 - Q2 2021)	3-Month Change (Q1 2021 - Q2 2021)
1	Turkey	29.2%	16.3%	8.9%
2	New Zealand	25.9%	10.0%	4.5%
3	United States	18.6%	11.2%	6.9%
4	Slovakia	18.6%	10.8%	6.3%
5	Sweden	17.2%	9.8%	6.0%
6	Luxembourg	17.0%	9.1%	4.2%
7	Australia	16.4%	10.6%	5.1%
8	Canada	16.0%	10.6%	8.1%
9	Netherlands	14.5%	10.5%	4.9%
10	Russia	14.4%	6.1%	4.4%

Furthermore, we can take a longer-term view and examine price increases over the last 20 years. The global house price dashboard from *The Economist*¹³ finds that in the 20 years between Q2 2000 and Q2 2020¹⁴, that New Zealand has had the fastest growing real estate prices on the planet in real (inflation-adjusted) terms, of any advanced economy, with Canada coming in second, and Sweden and Australia taking the third and fourth positions overall. Norway, a country where almost all existing homes are sold by open English auction¹⁵, has also experienced substantial price appreciation. Figure 6 provides data for those five countries, along with the rest of the G7:

Figure 6: Inflation-Adjusted Home Price Increases, Q2 2000 to Q2 2020, New Zealand, Sweden, Australia, Norway, and the G7¹⁶

Country	Increase in Home Price Index	Notes
New Zealand	+181%	Open English auctions common
Canada	+159%	
Sweden	+142%	Blind bidding not permitted; sales either conducted through open bid negotiation or open English auction
Australia	+115%	Open English auctions common
Norway	+98%	Majority of homes sold through open English auction

¹² Increases are shown in nominal dollars.

¹³ Economist (2021)

¹⁴ The latest quarter where data is available for all countries

¹⁵ Sønstebo, Olaussen, and Oust (2021)

¹⁶ A few notes on the chart: The time frame under examination matters; choosing a different start point may yield different results. As well, the focus of this paper is on price increases, but price volatility is also important. Future work will examine price increases and volatility across countries.

France	+88%	
United Kingdom	+75%	
United States	+41%	Blind bidding is the norm
Germany	+25%	
Italy	+7%	
Japan	-13%	

From this data, it is hard to conclude that blind bidding is associated with higher residential real-estate prices. While Canada has experienced some of the highest real-estate price growth in the world, New Zealand, where open bidding for homes is common, has experienced even faster growth. And price growth in Sweden, where open bidding for homes is mandatory, has experienced faster home price appreciation than six of the seven countries in the G7.

Correlation is not causation, and we do not know how these markets would have performed had their regulatory environments been different. It is not implausible, however, that increased transparency could cause higher prices in a hot market. As one Australian real-estate agent described it, “[t]he reason you have an [open English] auction is that you have a few potential buyers with a similar budget and you hope that, if you get all the egos in one room, someone will lose their mind and blow their budget to come out on top”.¹⁷ This is the one-upmanship effect in action and illustrates why the *bid-gap argument* that blind bidding leads to higher real-estate prices, may be overly simplistic.

We have one argument that open bidding would lead to lower prices and one that suggests it would lead to higher prices. There is a third position that it may not make a difference one way or another. There is a concept in the economics literature known as *revenue equivalence*, which is the idea that the outcome of an auction is independent of the format that auction takes. Some analysts have picked up on this argument; one example is a CBC piece examining the Liberal commitment to end blind-bidding, titled *Fact check: Would a blind bidding ban lower housing prices?*¹⁸ which came to the conclusion that “blind bidding is unlikely to drop housing prices significantly” citing revenue equivalence. If revenue equivalence holds in the real world, then any bidding reform designed to lead to changing average prices is doomed to failure.

The argument that open-bidding leads to neither higher nor lower prices: the revenue equivalence theorem

The revenue equivalence theorem¹⁹ in economics suggests that, if a certain set of assumptions hold, then the expected revenue of the seller in an auction is the same regardless of the form that auction takes. This would suggest that requiring all real estate sales to be open auctions would, on average, have no effect on the final price. Maskin and Riley (2000) describe revenue equivalence as follows:

The revenue-equivalence theorem¹ for auctions predicts that expected seller revenue is independent of the bidding rules, as long as equilibrium has the properties that the buyer with

¹⁷ Gibson (2021)
¹⁸ Raycraft (2021)
¹⁹ Vickrey (1961)

the highest reservation price wins and any buyer with the lowest possible reservation price has zero expected surplus. Thus, in particular, the two most common auction institutions—the open “English” auction and the sealed high-bid auction are equivalent despite their rather different strategic properties.

Maskin and Riley (2000) note that several assumptions underpin the revenue equivalence theorem, and if one of those assumptions were not to hold, then one auction format could return higher (or lower) average profits than others. In Figure 7, we describe the key assumptions underpinning the revenue equivalence theorem, along with what is likely to happen if they do not hold.

Figure 7: Assumptions underpinning revenue equivalence, and outcomes if they are violated

Key Assumption	Outcome if Violated
<p>Risk Neutrality of Bidders. Myerson and Zambrano (2019) define a risk-neutral bidder as one where “he (or she) is willing to base his decisions purely on the criterion of maximizing the expected value of his monetary income.”</p>	<p>Holt (1980), Riley and Samuelson (1981), and Maskin and Riley (1984) find that when bidders are risk-averse, rather than risk-neutral, a sealed-bid auction will yield better results for the seller than an open-bid auction, even when the seller is risk-averse.</p>
<p>Independence of Different Buyers' Private Signals about the Item's Value. Under this assumption, the amounts bid by the other prospective buyers provide no information to a bidder on how much value the item would provide the bidder should they win the auction.</p>	<p>If the reservation price for bidders is positively correlated, then, as shown by Milgrom and Weber (1982), open-bid auctions lead to <i>higher</i> prices than closed-bid auctions, as the bids placed by other prospective buyers about the value of the item being bid on.</p>
<p>Lack of Collusion among Buyers. This assumes that the buyers cannot collude with each other to obtain a lower price from the seller.</p>	<p>Graham and Marshall (1989) and McAfee and McMillan (1992) find that if buyers can collude, then closed-bid auctions yield higher revenue as it allows buyers to secretly violate collusive agreements without being caught.</p>
<p>Symmetry of Buyers' Beliefs. Under this assumption, the value the bidder places on an item is drawn from the same statistical distribution.</p>	<p>Maskin and Riley (2000) find that in cases where there may be a small number of bidders with ‘idiosyncratic’ tastes, that a seller will gain higher revenues, on average, from an open auction. This is because that “[i]diosyncratic tastes mean that the market for any given item may be extremely thin. Suppose, for example, that a given buyer happens to be enthusiastic about a particular painting. He might reasonably conjecture that he is alone in his enthusiasm. But, if so, low-balling in a sealed high-bid auction becomes a good strategy”. In contrast, sealed-bid auctions yield good results when the seller (and other bidders) can be assured there will be multiple strong bidders.</p>

Economic theory suggests that if the key assumptions hold, then the level of bid transparency should not impact average prices. However, economists have also pointed out reasons they might not hold in real-world scenarios. Theory is one thing, practice is another. We can turn to the empirical evidence to see if bid transparency leads to lower or higher prices, or if our assumptions hold and revenue equivalence carries the day.

The empirical evidence on the effect of bid transparency on the real estate market

There have been several studies examining the impact of auction design on the final price received by the seller, including a few which examine real-estate markets. While these are instructive, they are not conclusive. As far as we are aware, there are no peer-reviewed studies that examine bidding rules in the Canadian real estate market. While studies in other markets, including real-estate markets in other countries, are instructive, there could be factors that are unique to Canada that would lead to different results.

Despite the theoretical support of the revenue equivalence hypothesis, published empirical studies rarely find it holds in practice, instead they find that the auction method does have some impact on average prices. This is noteworthy, though one possible explanation for this result is publication bias, where studies with null results (such as auction form not having an impact on average prices) do not get published as they are less noteworthy. That could explain why the literature tends to find that transparent bidding processes in real estate markets lead to either higher or lower prices.

Examining the literature, we start with the papers that find that real estate transactions with transparent processes were associated with *higher* rather than lower prices than ones involving blind-bidding or sealed bids. As Figure 8 illustrates, these include home sales in New Zealand, Ireland, and Australia, as well as vacant land auctions in Singapore and the United States. It is noteworthy that these papers not only find that higher bid transparency is associated with higher prices, but they give an explanation of *why*, rooted in economic theory, that bids can convey information about the value of a property to other bidders, as noted by Milgrom and Weber (1982).

Figure 8: Studies finding that transparent bidding methods are associated with higher real-estate prices.

Paper and Context	Summary of Finding
Shi and Kabir (2016) on the New Zealand Property Market.	<p>Finding: Open auctions gain popularity with sellers, relative to sealed-bid sales in hot real estate markets and lead to <i>higher</i> prices.</p> <p>"[A]llowing bidders to learn about others' valuations (signals) in an auction can make the bidders more comfortable with their own assessments and may lead them to bid less cautiously."</p> <p>In other words, being able to see the bids made by others sends a signal to a bidder about the worth of the property, and seeing a high bid would cause them to bid</p>

	higher themselves, as would be predicted by Milgrom and Weber (1992).
Chow and Ooi (2014) on vacant land auctions in Singapore.	Finding: Prices are 1.2-9.6% <i>higher</i> in open English auctions than in sealed-bid auctions. Similar to Shi and Kabir (2016), the mechanism driving the result is that “bidders can infer other bidders’ information by observing their bids in the common value auction paradigm.” Again, suggestive of the Milgrom and Weber (1982) finding that open-bid auctions lead to higher prices as bidding signals an item’s value.
Stevenson and Young (2004) on 1,694 sales conducted through Open English auction and 299 sales through blind bidding in Greater Dublin, Ireland from 1996 to 2001.	Finding: Stevenson and Young find that, during the hot Irish real estate market from 1996 to 2001, “auctioned properties sold on average for higher premiums than private treaty sales and that higher numbers of auctioned properties sold at high premiums.”
Quan (2002) on vacant land sales in Austin, Texas from April to August 1991.	Finding: Quan finds that “after controlling for property characteristics, prices of properties sold at [open English] auction were substantially higher than those of comparable properties sold in a negotiated setting.”
Dotzour, Moorhead, and Winkler (1998) on real-estate transactions in Christchurch, New Zealand from September 1991 to December 1992. Of the 5,344 sales, 158 were from open English auction.	Finding: In the four areas studied, two found no difference in price between blind bid negotiation and open English auction. In the other two, open English auction transactions sold for a 5.9% and 9.5% premium over blind bidding.
Lusht (1996) on real-estate auctions in Melbourne, Australia from January 1988 to March 1989.	Finding: After controlling for the types of houses being put up for sale, Lusht finds that open English auctioned properties sold for 8% more than those sold under a blind bidding model. During this period, roughly half of detached houses listed for sale were by open English auction.

Not all studies come to this result. Two studies, as shown by Figure 9, examining American real-estate markets find that properties sold by open English auction methods sold for *lower* prices than through blind bid negotiation.

Figure 9: Studies finding that transparent bidding methods are associated with lower real-estate prices.

Paper and Context	Summary of Finding
Mayer (1998) on real-estate auctions in the United States during the 1980s.	Finding: Mayer finds that in the Los Angeles real estate boom of the 1990s, open English auctioned properties sold for 0-9% less than those under blind bidding. He found that during the oil bust in Dallas, auctioned properties sold for 9-21% less. This may be because distressed properties were more likely to be auctioned, though it does show that open English-style auctions are

	more likely to lead to lower prices in a cold rather than a hot real estate market.
Ashenfelter and Genesove (1992) on the sale of 83 condominium units near Princeton, New Jersey, USA in April 1990.	Finding: Condominium units sold by open English auction had a 13 percent purchase price premium over those sold through private negotiation.

Given the complexity of real-estate markets, we should not be surprised that different studies, using different methods, in different markets, at different periods lead to different results. One possible explanation for the discrepancy is the state of the economy at the time (and place) the studies were being conducted. There is some additional evidence that market conditions may impact whether bid transparency leads to higher or lower prices, as shown by Figure 10.

Figure 10: Other relevant research on bidding methods and real-estate auction methods

Paper and Context	Summary of Finding
Gan (2013) on residential real estate sales.	Finding: The optimal form of selling a home is both dependent on market conditions and the individual characteristics of the seller. If the seller has high holding costs or low levels of loss-aversion, they are likely to prefer an open-bid auction.
Ong, Lusht, and Mak (2005) on distressed property auctions in Singapore from 1995 to 2000.	Finding: The probability of success in an open English-style property auction is highly dependent on the state of the economy, with open English auctions performing well in hot real-estate markets.

Future research is needed to determine the effect blind bidding has on the price of residential real estate. The limited evidence we have, however, suggests that open bidding²⁰ in a booming real estate market leads to higher, rather than lower prices. These empirical findings are supportable by economic theory, that in a hot real estate market with many bidders, bids convey information about the value of a property. Observing a high bid sends a signal to the other bidders about the true worth of a property, causing those bidders to revise their valuations of the property upward, leading them to increase their bids. As shown by Milgrom and Weber (1982), this causes revenue equivalence to be violated, with more transparent forms of bidding leading to higher prices.

²⁰ Either open English auction or open bid negotiation.

Conclusion: Would a ban on blind-bidding slow the growth in real estate prices? Probably Not.

Our goal in this paper was to answer a straightforward question:

Does blind bidding *ultimately drive up home prices*, as claimed, and would a ban on blind bidding lower, or at least slow the growth of, home prices?

While the *bid-gap argument* that blind-bidding contributes to higher real-estate prices has gained substantial traction, this paper concludes that: **Based on the evidence, blind-bidding does not ultimately drive up home prices, and requiring open bidding in a hot real-estate may lead to higher, rather than lower, home prices.** This is supported by both empirical evidence, and economic theory.

We limited our focus to only the impact that a ban on blind bidding would have on price and did not consider any other intended or unintended consequences from a ban on blind bidding. Nor did we consider the mechanics of how the federal government could legislate in an area traditionally considered provincial jurisdiction.

There will be non-price consequences to requiring the details of bids being made available to other bidders, most notably the trading-off of privacy for transparency. If the government chooses to ban blind bidding, it will need to consider which details would be given to the other bidders and which could remain private. It would also need to consider whether a ban on blind bidding would lead to open bid negotiation (similar to Sweden) or open English auction (similar to Australia and New Zealand) becoming the dominant form. In the latter system, bids are judged solely based on price, with the seller determining the other conditions of sale. As we have seen in those two countries, in a hot real estate market, sellers would have substantial ability to set favourable conditions, which could lock out some bidders, such as those who wish to make their offers conditional on selling their existing property.

Ultimately, while the form of auction likely plays a small role in determining the final price of the property, the dominant factors driving price changes are supply and demand. If the federal government wishes to ensure climate-friendly housing is available and attainable for all Canadian families, it must focus on Canada's lack of supply. In a note published by Scotiabank, Perrault (2021) notes that Canada has the lowest number of housing units, per capita, in the G7, and would need an additional 1.8 million housing units to reach the G7 average. Moffatt (2021) finds that, between 2016 and 2021, Ontario built 64,000 fewer housing units than required to keep up with population growth and the formation of young families. This affects not just housing prices but creates labour shortages in regions experiencing rapid economic growth, such as the Greater Toronto Area, as a shortage of housing prevents workers from moving to the region.²¹ In short, it is demand and supply imbalances, not auction form, which is the primary driver of escalating home prices.

²¹ Moffatt, Atiq, and Islam (2021).

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