

Closing Real Estate Transactions

Abstract

In this paper we analyze the process of sequential decision-making in real estate transactions, which leads to two outcomes: the close of the sale, or walking out from the property or the search for a property. We provide a framework, which at particular decision nodes, allows the buyer to proceed rationally when using logical deduction to go either direction from one node to the next sequential one, or irrationally when skipping a node, or going in the opposite direction of the sequential decision-making 'route'. At every decision node, multiple decisions are possible, and often what moves the sequential decision-making (game) to another level/node is a decision based on following one's heart or instinct, which cannot be explained logically. Emotion is involved in the decision, making it non-linear (where rational is linear). Thus the same movement could be caused as much by rational as irrational thinking and acting.

Moreover such a decision, with often irretrievable outcomes leads to a certain path in the selection and purchase of a home - similarly to decisions about dating and marriage, or the purchase of an automobile - which would have otherwise not been chosen, if only logical choices were made, like game theory predicts.

General key features such as asymmetric information and moral hazard, risk & uncertainty, are commonly found in the closing of the automobile purchase (both new and used/resale); closing of big ticket items for a household, such as appliances or electronics; closing the insurance purchase/selection (i.e., car insurance, home insurance, medical insurance); as well as closing a dating relationship between two individuals into marriage, or closing mergers and acquisitions between corporations, or even closing international/diplomatic agreements between countries.

Imagine a box with the subject's mind inside of it. From the side, simplified, the subject's mind oscillates inside of it. The sides represent "set theory", the mental space of stability, the usual state, or the common state. No others around, the subject is in the lowest energy state, one of independence. Others produce positive (teamwork) or negative (competition) states of interdependence, and both with higher states of emotion - we can reduce the potential for negative states by choosing to have our "friends" around (see emotion in Kahneman & Tversky's prospect theory, 1982); another technique is to use exercise, yoga, etc. A seller is highly charged, possible of being in both states (uncertainty principle), used to pull and push the subject towards a decision.

The sales process is about raising emotion by seller to get buyers out of their boxes, channeling energy by considering a decision favored by the seller (the emotion constrains a subject's choices), but also getting an action - by signing the contract. Used effectively and adroitly by the seller, the buyer bonds to the seller, becoming life-long friends.

Most buyers walk into a close guarding against making a hasty sale, inside of their boxes but with higher barriers (their guards are up). The seller has several tools: knowledge, familiarity with the subject's needs and the choice of where and when to do battle to make the close. But the most effective tool is the close, the ability to trigger emotions that cascade to confuse a buyer, or to make a buyer angry enough to storm away, or to be used by the seller to channel the buyer to

form a team with the seller that solves a problem identified and solved by the seller with the buyer.

If the purchase of a residential home is based on emotions – as most practicing, successful real estate brokers and associates would assert – and the same can to some extent be said about people who buy real estate properties for investment purposes (except hedge funds and other organized groups who have a clearly defined decision-making profit-based box), then closing a real estate transaction cannot be a well understood phenomenon if we do not employ a new paradigm of thinking. A new theory of interdependence is what we propose.

Interdependence is defined as “groupiness”, ranging from -1 for fully independent and rational individuals, to +1 for slavishly dependent persons (i.e., cults; gangs; and the teammates of highly-functional teams). Rational is used to convey “logical” or business-like decision-making. For rational decisions, the individual customer makes the close (i.e., the close is an unnecessary step). However, for most sales, especially when the transaction is important, a close is necessary. But whenever interdependence is involved, emotion is too.

The main stages in purchasing real estate from the buyer’s perspective include: (1) the selection of ‘the right one’; (2) closing after the home inspection; (3) closing after financing is approved; and (4) closing after the walk thru inspection. In any of these stages it is possible for the buyer, faced with the uncertainties of not fully knowing the value of the house they are about to purchase, and risks they generally do not want to take over (unless the buyer is a general contractor buying an investment property) to go through a “blown out of proportion” process of rotation from the LIKE, to the Do Not Know (DNK), to the Do Not Like (DNL) states. We can think of the LIKE and DNL as stable states and the DNK as the transition state.

We briefly present four case studies and a matrix of characteristics, which is intended to guide the buyer in closing the selection stage of the complex multi-level decision-making process, taking place in the purchase of residential real estate.

The purchase of a home is often a family/group decision of at least two people with different needs, and different preconceived frameworks of past experiences in real estate transactions. The selection of a house that will have those features that not only allow the individual and family to comfortably live and grow, but it also allows one’s inner self to achieve higher goals, depends many factors. The complexity of such a process requires a multiple level analysis, which we have started to entangle in this paper, and wish to further explore in the near future, paying attention to a more holistic approach in which current choices are influenced from buyers positions toward their culture, family, traditions in a social and historic context.