

Pricing Your Home

Sellers Beware!

Now that you've made the decision to sell your home, you are facing the same dilemma that every home seller faces: how to set your asking price. Like every seller, you want to maximize your equity and sell your home for the highest price possible.

Many sellers decide to simply stick a huge price tag on their house to "see what happens." In reality, this common pricing strategy can cost you a lot of time, hassle and money!

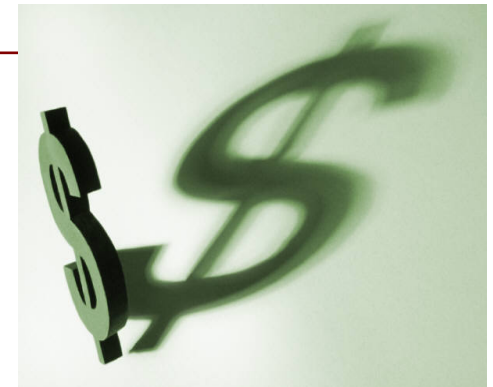
Why? Of all the factors affecting the sale of your home the most important is price. An unrealistic asking price may actually cause you to get less for your house than you would have if your home was priced realistically from the start. Statistics show that the longer a home is on the market, the more potential buyers wonder what's wrong and the lower the ultimate sales price. According to a recent article in Realty Times magazine:

"Gone are the days when a seller can offer properties at inflated prices with the thought that buyers can make an offer. If your property is perceived as overpriced not only will you not receive offers but you'll help other sellers sell properties that are correctly priced. An overpriced home will take longer to sell and is also likely to sell for less than its actual value. This is due to the negative effect often associated with properties that have been on the market for a longer than average time — The "stale" factor.

By "stale" brokers generally mean that a property is not "new," fresh," or a novelty. You may have lost that one buyer -- the only one you need -- because they were turned off by the price. The article concludes that:

"A realistic asking price will help you sell your home quickly and for top dollar. By pricing your home close to market value you ensure that the difference between your asking price and the price an informed purchaser will be willing to pay is less, resulting in the greater likelihood of competing offers."

The discussion that follows will help you price your home correctly from the beginning. Doing so will almost always get your home sold fast and for more money!



Benefits of Accurate Pricing

- 1) **Exposure to more buyers.** Everyone will want to see / show your home.
- 2) **Increased realtor response.** Realtors are more inclined to show homes that are accurately priced.
- 3) **Better advertising response.** Value always attracts buyers.
- 4) **Attracts higher offers.** When buyers see value they will pay for it.
- 5) **Faster sale.** When buyers see value they will act quickly before someone else does!
- 6) **Less carrying costs.** The less time it's on the market, the fewer expenses you have to pay — taxes, mortgage bills, and other costs.
- 7) **More money to sellers.** Highest and best offers come in the first 60 days.

Reasons for Overpricing

- 1) **Need for money.** What you need to get has no bearing on what you will get.
- 2) **Emotions/ego.** It's natural to feel that you have the "best" home on the block and that buyers should pay dearly for it. In reality, market conditions dictate the price.
- 3) **Over-improvement.** Some improvements help your sale, but you can't add personalized improvements, enjoy them, and then expect the buyer to pay for them.
- 4) **Bargaining room.** A little room isn't bad (in fact, there should be a little room), but buyers seldom express interest in making offers on overpriced homes.
- 5) **What you paid for the house.** The amount you paid for the house does not affect its value now. The condition, the current economy, the location and the asking price DO affect what you ultimately receive.
- 6) **Lots of time to sell.** The longer your home is on the market, the lower the ultimate sales price.

Common Pricing Fallacies

As you can see from the preceding charts, there are many benefits to pricing your home correctly from the start. Let's take a closer look at some of the most common pricing misconceptions and why they usually don't work:

Fallacy #1: "Let's ask a lot and see what happens"

"Let's just put the house on the market for top dollar and see what happens . . . What's the harm?"

One of the most common, but flawed, pricing strategies is to simply set the price high and "see what happens." You can always lower the price later—right? Consider the following . . .

If the price is too high for the neighborhood, your house won't be picked for viewing, even though it may be much nicer than other homes on the street. You may tell us to "Bring me an offer. Frankly, I'd take less." But compared to other houses for sale, your home simply looks too expensive to be considered. If it is shown, buyers and agents learn right away that your price is unrealistic because it doesn't compare to all the other homes they have seen. In reality, buyers are more knowledgeable about the market than most sellers because they've been looking at other homes in the same price range. And most buyers shy away from making offers on an overpriced home, especially when it is new on the market. What's even worse, some agents will use your house to help sell their own listings. They will show a potential buyer your house in order to point out all the features yours doesn't have compared to the home they are trying to sell. The other home ends up looking like a bargain.

Now what happens? It's been a month or two with no offers and few lookers. You decide to lower the price a little. No harm done, you reason? Not quite. Statistics show that new listings get the most showings during the first four weeks on the market. By the end of the first month or so your house has become "old news." One of the first questions buyers ask when looking at a home is "how long has it been on the market?" Why do they care? Because people assume that homes that have been on the market for a while have some sort of problem. No one wants to think they are buying a "picked over" product unless they can get a "deal" on it. If someone decides to make an offer at this point, many buyers and agents alike reason that the seller may be getting worried or desperate and will consider a substantially lower offer than when the house first came on the market, regardless how much you have lowered your price.

Fallacy #2: "We have the best home in on the street so we'll sell it for the highest price."

"The Smith's house down the street just sold for \$200,000. Our house is much nicer than theirs so we can surely get \$250,000 for ours."

Many of us believe that we have the best house in the neighborhood. And why not . . . we choose it over many others when we bought it. Plus we've spent years personalizing the house to meet our needs. Although it's possible that you DO have the nicest home in the neighborhood, the selling price is ultimately determined by what similar homes in your neighborhood have sold for and what buyers are willing to pay for yours. Most realtors will conduct a "comparative market analysis" for their clients before they make an offer. They come to the bargaining table armed with the knowledge of how much other similar homes in the neighborhood have sold for. Even if you DO have the nicest home in the neighborhood you may be able to get top dollar or even set a new high for the neighborhood, but within reason. Very few people are willing to buy an expensive home in a neighborhood of lower priced homes just because it's nicer than the other homes.

Fallacy #3: "We've over-improved and the new buyer can pay for it."

The Smith's house down the street just sold for \$200,000 but we spent big bucks to put in a pool and hot tub so ours should go for \$250,000.

Many sellers make the mistake of thinking that they can do improvements and recoup most of the money they've spent when they sell. This is often not the case. Many sellers assume that because they spent \$10,000 on a hot tub and are willing to leave it when they sell that the buyer should be willing to pay for it. It just doesn't work that way. The hot tub might make your home more appealing than one without it for some people, but no one is going to pay more than market price for a house regardless of all the "toys" that come with it. And some items (like a pool) can keep certain buyers away. That's not to say that you shouldn't do improvements though. Do them because you want them, not because you think you can sell them later.

Fallacy #4: "We've done nothing in 10 years but no one will notice."

The Smith's house just sold for \$200,000 and ours is the same square footage so we should get the same. So what that they put in a new kitchen and finished the basement.

On the other side of the Improvement issue, leaving your house in it's original state is not going to get you top dollar. Sellers often get excited to see home prices skyrocket in their neighborhoods and assume that they will follow the trend when they sell. Many times, especially with homes ten years old or older, some updating is necessary to get top dollar. Sellers in older neighborhoods who can advertise "new appliances, updated countertops, new flooring, whatever the current hot trend is, etc. etc." are the ones getting the most for their homes. Some sellers try to offer a small allowance for updating. This usually doesn't work either . . . The home shows poorly compared to others and buyers want more than what the updating would actually cost because they are having to live through the hassle.

Fallacy #5: "We've maintained the house and should recoup the money."

We've spent a fortune having a new furnace installed, the house painted, and the deck refurbished. We should get top dollar because the house is in perfect condition.

Just because you have taken care of maintenance items doesn't mean you've updated the house. No one cares how much you spent on a new furnace or that you replace the rotted deck boards. You wouldn't live in a house with a nonfunctioning furnace or an unsafe deck. People won't buy one either. Keeping a house in good repair is simply part of home ownership and is not an expense you can plan to recoup when you sell. I recently heard from a friend who was trying to sell a home up north. She said she simply didn't understand why their home hadn't sold. "We put out new mulch, replaced the corroded faucet upstairs and had the wood floors refinished," she said. The same house down the street sold for the price we are asking. Why hasn't ours?" Upon further investigation, she admitted that the house down the street had an updated kitchen and a partially finished basement. She was mistaking maintenance with updating.

Fallacy #6: "Our home was appraised for \$250,000, so that's what it should sell for."

"We had the house appraised and we won't take a penny less."

While an appraisal can be a very valuable tool when trying to set an asking price, be aware that not all appraisals are alike. Many appraisals are based on size and location alone and do not take condition or other important factors into consideration. We worked with a client who had their house appraised before listing it. The appraisal indicated the home had a value of \$500,000. The appraiser compared the home to two others that had recently sold in the neighborhood. The problem? The exterior of our client's home was constructed of a material that was currently involved in a class action lawsuit, while the other two homes were brick. The home ultimately sold for \$405,000 a year later. Often a Comparative Market Analysis conducted by a realtor is more accurate because it should include factors other than size and location. This is not to say, though, that a properly conducted appraisal is not useful or accurate. Just remember that they are not the final word or the only information you should use to set your price.

Fallacy #7: "We need the money."

"We have a first and second mortgage totaling \$230,000. Add the real estate commission to that and we have to get \$250,000 just to break even."

Unfortunately your needs, no matter how critical to you, don't matter to buyers, but you'd be surprised how often we hear this "logic." If you can't "afford" to sell the house at the current market value, then you'll have to wait to sell it until the market conditions change or be willing to take a loss if that's what the current market dictates.

Fallacy # 8: "We paid \$200,000 for the house originally."

"We paid \$200,000 for the house five years ago so surely it's doubled by now."

The amount you can sell your house for now has absolutely no bearing on how much you paid for it originally. Again, the market dictates the price. Although most homes DO appreciate (that's why real estate is such a good investment!), we've seen times and conditions that bring real estate prices down, not up.

Fallacy #9: "We have all the time in the world to sell."

"Frankly, we are in no hurry to move. We are willing to wait to get our price."

The longer a house sits on the market, the less it will sell for in the long run. Buyers and agents automatically assume that there is something wrong with a home that sits and sits on the market without selling. When a home doesn't sell in the first couple of months, it's almost never because the "right" buyer hasn't come along. It's either because the house is overpriced or in poor condition or both.

The Pricing Facts

Homes on the market for 30 days or less in the Atlanta area:

Ratio between list price to sales price: **97.8%**

Lowered sales price during listing period: **1%**

Homes on the market for 100 days or more in the Atlanta area:

Ratio between list price to sales price: **93.5 %**

Lowered sales price during listing period: **63%**

The first home below is an example of the outcome of a pricing mistake. All three homes were in the same neighborhood, had similar design and sold around the same time period. The first home lingered on the market while the other two sold quickly. Why? The first home was not as updated as the other two, yet the original asking price was obviously based on what the updated homes were listed for.



Sold in 101 days for \$233,000 (90% LP/SP)

Original asking price: \$260,000

Lowered asking price: \$250,000

4 bedrooms, 2.5 baths



Sold in 6 days for \$249,000 (100% LP/SP)

Original asking price: \$248,800

Lowered asking price: 0

4 bedrooms, 2.5 baths



Sold in 22 days for \$260,000 (97% LP/SP)

Original asking price: \$269,000

Lowered asking price: 0

4 bedrooms, 2.5 baths

Following is another actual example of three homes that sold in the same neighborhood during the same time period. All three are equal size and have fairly equal features. Although the sellers of the first home were originally advised to ask \$559,000, they wanted to try for a higher price of \$578,000. They received an offer after six weeks for \$540,000 but turned it down. Two a half months later, and after lowering the price to the suggested list price, they accepted an offer of \$543,000 (essentially the same as the first offer). The home was on the market for nearly four and a half months.

The other two sellers started out asking closer to the actual value of their homes and received offers quickly and for a higher list price to sales price ratio.



Sold in 126 days for \$543,000 (94% LP/SP)

Original asking price: **\$578,000**

Lowered asking price: **\$559,900** after two months

Square feet: 4218 plus finished basement

Description: 5 bedrooms, 4 baths upstairs



Sold in 32 days for \$530,000 (97% LP/SP)

Original asking price: **\$545,000**

Lowered asking price: 0

Square feet: 4242 plus finished basement



Sold in 8 days for \$529,900 (98% LP/SP)

Original asking price: **\$539,900**

Lowered asking price: 0

Square feet: 4481 plus finished basement

Note that in each of the cases above, both of the homes priced correctly in each neighborhood sold quickly and for a higher list price to sales price ratio. The sellers also had less carrying costs during the selling period (mortgage payments, etc.), less hassle and showing time, and closed sooner.

How to Price Your Home to Sell

Now is the time to put your emotions aside, forget about your needs and do a little homework. Keep in mind that buyers do not care how much you paid for your home, how many memorable moments you and your family shared in the home, or how much downpayment you need to finance your new home.

1) Look at other homes in your neighborhood that are for sale.

Spend a little time visiting open houses to get a feel for the competition. Then take a hard look at how your house compares. Although the true market price is not the asking price, you'll begin to get a sense of which homes are reasonably priced and which are overpriced. Then try to view your home through buyer's eyes. How does it compare to the other homes on the market now? Do you have similar features? Is yours bigger or smaller? Is yours in better or worse condition?

One important point to keep in mind during this process: a similar home with similar square footage can sell for vastly different amounts in different neighborhoods and areas. We've seen this happen quite often. Why? Sometimes it's the location or amenities of the neighborhood, sometimes it's the condition of the neighborhood in general, and sometimes there's no rhyme or reason. It's simply that one neighborhood has become more popular than another. We know of a builder who built the same identical homes in two different neighborhoods nearby each other. One development was a small two street community, the other was a country club community with a golf course, Olympic pool, and 12 tennis courts, etc. Although both communities were very nice, the homes in the country club sold for more than the homes in the smaller development simply because of the amenities.

2) Make a list of the features and flaws in your home.

As you tour other homes on the market, keep a list of all the features the home has or doesn't have compared to yours. This will allow you to come up with a realistic evaluation of your home's strengths and weaknesses compared to the competition's. Doing so will either spur you on to make some improvements or repairs before you list or help you understand the pricing strategy we will likely suggest.

3) Review the Comparable Market Analysis (CMA) we give you.

We will provide you with a CMA before you list your home. This report compares your home to others that have sold recently, those that are pending sale, and homes that are currently on the market. Obviously the size and condition of your home, its location and its appeal compared to other homes in your neighborhood and the surround areas are major considerations when setting the price. But these aren't the only factors. The economy, the current interest rates, the local job market and even the time of year you decide to sell can also affect the selling price. We also include these factors in our CMA. We use both a software program and our own personal observations and knowledge of the market to come up with a suggested price.