

HOW TO PRICE YOUR
HOME – THE 5 THINGS
YOU MUST UNDERSTAND
TO GET THE MAXIMUM
NET FROM THE SALE OF
YOUR HOME

In order to sell a home for the maximum net, you must manage the dynamics between 3 factors – price, promotion, and time. This paper focuses on price – how to determine the asking price for your home.

I. There are no secrets - Everybody is looking at the same data.

Another title appropriate for this section would be “All of the rubes have already purchased a home. There are none left to pay a premium for yours.”

The internet tells all. Look at the public available information on this Lakewood Ranch home (the subject home in the subsequent discussion) listed for sale in the local MLS:

- From [Trulia.com](#): The subject is a 4BR/3.5 BA, 3472 s.f., heated pool, built in 2004. Listed in June 2009 for \$869,000. Last and only price change was in October 2009 which took the asking price to \$779,000 or \$224/s.f. The average asking price for homes in the neighborhood is \$219/s.f., the average sale price was \$187/s.f. (NOTE: Zillow and Trulia estimates are not always accurate and sometimes not even close to the real value of a home. They rely on information from the local property appraisers to develop their value estimates. Often the property appraiser information is incomplete or wrong, for either the subject or the comparables used to develop the estimates. These estimates are often the starting point in price negotiations. Even if you don't use them at all, you should know what they are for your home. If you are priced significantly higher than the estimates you should be prepared to explain the reason to a prospective buyer because buyers use them.)
- From [Zillow.com](#): The point estimate of value is \$673,000 with a range of \$558,000k to \$774,000, this means that the asking price is \$104,000 above the point estimate and \$5,000 above the high end of the range.
- From the Property Appraiser site: The assessed value is \$629,000. Using the bird's-eye feature on the map provided, it is apparent that back lanai offers a view of the woods. The home was purchased as new construction. Because the home was new construction when purchased, the purchase price of the improvement (home) is not available but the seller paid \$159,000 for the lot. There have been no permitted improvements since the building was completed.
- From the Clerks website: The original mortgage amount in 2004 was \$528,000. There are no delinquency notices or liens (other than the mortgage) recorded against the property.

And for comparable information:

- From Trulia and Zillow : There are 4 other homes listed for sale on the same street and the asking prices range from \$699,000 to \$799,000. The same sort of information above is available for each of these comparables.
- One of the listings for \$699,000 is on a lake, has roughly the same square footage as the subject, and has a Zillow point estimate of value of \$681,000 –much closer to the asking price and higher than the Zillow estimate on the subject property which has an asking price \$80,000 higher than this home. Trulia reports that the home listed at \$699,000 has been on the market just 24 days.

Already there is strong evidence that the subject home is overpriced. The listing has been at the same price since October. Nationally and in most markets, prices have fallen since October. If nobody thought the home was worth \$779,000 six months ago, it can't be worth \$779,000 today if prices have been falling. Additionally, not

only is the subject priced 6 figures above the Zillow point estimate and above the high end of the Zillow range, but it is priced more than other homes with higher Zillow estimates.

What are the chances that anyone will offer anywhere near the asking price for the subject home? What is the seller gaining by having such a high asking price? Because all of the information available, there seems to be a very low probability that anyone is going to pay anywhere near the asking price. And since asking price is almost always included as a limiting requirement in every buyer’s search, the subject will be compared to homes actually worth \$779,000 and those homes will usually look like better deals. If a prospective buyer was culling his list of candidates down to the few he wanted to visit, he would probably scrub the subject listing now. If not for the research then because the home looked over priced compared to all of the other listings available in his price range.

For those sellers that think they have to mark their home high so they can negotiate down to a reasonable price, please reread this section. Note the process. Even though buyers know they can negotiate price, they start out assuming that the prices are somewhat close to what the seller will accept or at least that the spreads between comparables are uniform. They have no choice but to make this assumption. Otherwise, they would not be able to use price, the most important factor for every buyer, in their search criteria. If you assume that the asking price is irrelevant, you have to consider every listing.

Consider the chart below:

	Subject	Comp
Asking Price	779,000	699,000
Estimate of Value	673,000	687,000
Value to asking Price \$ Spread	-\$106,000	-\$12,000

If you were a buyer and both of these homes were substitutable in your mind, where would you start negotiating? To get the subject down to fair value, you have to negotiate away \$106,000 in asking price. To get the comparable to fair value, you only need to negotiate away \$12,000. Most every buyer will start with the comparable. The subject might be willing to take \$640,000 but that’s irrelevant because he will never get an offer. If more than one competitive listing is on the market, the subject may not even get a showing.

You have nothing to gain by asking too much for your home. Everybody will know your home is overpriced and ignore you.

II. Real Estate Prices Rarely Jump Quickly to the Upside.

People often talk about real estate prices like they change over night. From cocktail party chat to listing appointments, everyone asks “Are you seeing any upward movements in prices?” The questions are asked as though the real estate market moves like the stock market.

Almost any stock can make a huge one day move. A takeover rumor for instance, can cause a stock to double over night. All that is required is one share to trade hands at a higher price and every share is worth that new, higher price. All of this can occur for any number of stocks all while the overall stock market is in general decline.

Real estate prices don’t work that way. They don’t double overnight. One high priced sale can and usually will be discarded as abhorrent or at least watered down by other sales. You can’t pick up the newspaper every day and get a read on the value of your home like it was a stock. There are governors in place that keep home prices from moving up – things like ability to pay (interest rates, lending practices, personal income) and third party evaluations (homes often must appraise for the sale price). While home prices can drop quickly, they can only move up gradually. The best estimate of home prices next month is this month’s price.

Consider these statistics from the [S&P/Case-Shiller](#) report on home prices (10 market index):

- Average annual change in prices 1987—2010 4.4%
- Total change in prices for the decade of the 1990s 26%
- Total change in prices for the decade of the 2000s 40%
- Average change in the 12 months following a period
Of declining prices lasting 6 months or more -.3%

If you are waiting on prices to get back to their highs again, get comfortable. According to the Case-Shiller report both Florida markets are down almost 50% from the highs. That means, we need a double (100% increase) in prices from here to get back to the highs. During the entire decade of the 1990’s prices only moved up 25%. During the 2000s, prices ran up just 40%. Using the last decade’s growth rate, it could take 20 years for prices to increase 100%.

And it looks like we are in for another year of down prices this year. Even though the run of consecutive monthly declines has been broken, historically prices decline in the 12 months following the break.

III. The Market Isn't Static

When you first place your home on the market, you and/or your real estate agent will perform a thorough market analysis of your home. You will consider recent sales and the current group of competitive listings.

When you first place your home on the market you could have it priced competitively. Assume that you are in the top quartile of lowest price homes among the competition and that most prospects would also say that you are in the top quartile of value priced homes in that same group. A month later the situation could change, especially in this market. Someone could accept a really low offer and/or half of the remaining sellers could take price reductions. In 30 days you could move from one of the best priced homes to the mediocre to poorly priced category. You will need a price change just to stay competitive.

This phenomenon is generally known as “chasing the market down” and is something you want to limit (by pricing right the first time). If you are in a neighborhood with a slow absorption rate this is a huge concern. Absorption rate is the period of time required to sell the existing inventory based on the rate of sales over the past 12 months. A neighborhood with 21 listings and 7 sales in the past 12 months has a 3 year absorption rate. Six months is good and anything over 12 is slow. You end up taking big price reductions just to maintain your relative market position. However, once the market passes you buy, don't hesitate to respond with a lower price. You don't really have a choice if you want to sell. Just be more aggressive this time and try to be the next one to sell.

This section is nothing more than just a living example of how the market moves down. It doesn't get pulled down by foreclosures selling cheaply. It gets pushed down by anxious sellers lowering their asking prices. If your home is in a community like this, you need to be very aggressive from the start. Generally, the next home to sell will be the higher than the subsequent sale, almost regardless of the price.

IV. Holding Costs are Higher than Average Appreciation Rates.

It costs more in insurance, taxes, maintenance, and interest (either interest expense or foregone interest income) to own real estate than you are likely to get in appreciation in any one year.

Consider the following condominium example. If you own an empty condo valued at \$500,000, typical annual holding costs are likely to be as follows:

Maintenance fees	\$ 7,200
Taxes	8,000
Condo Owners Insurance	1,500
Interest (3% of value)	15,000
Total Costs	\$31,700

Many people don't count interest if they don't have a mortgage. Clearly, if you didn't have the money tied up in real estate, you would have it in something earning money. This case assumes you have no mortgage. The interest represents forgone CD interest on your \$500,000 equity. If you did have a mortgage, you would use something higher that represented your weighted average costs (loan interest on your note plus something less on your equity).

In this example, the holding costs are 6.2% of the value. If real estate prices increase an average of 4.4% per year, then it costs you 1.8% on average, every year to hold your property. If prices drop 3% next year, then the following year prices will have to appreciate over 9% just to break even on what you could have sold your home for this year. Nine percent appreciation is more than double the average annual appreciation rate over the past 23 years. That doesn't sound like a great bet.

If the home is empty and not being used then there is absolutely no reason to keep it. Waiting for prices to get better is a fools bet-you just get deeper in the hole.

V. There are Buyers in the Market and They Will Pay Full Price or More if They See Value

Two of the biggest myths about the market are that there are no buyers and that you need to price your home high because all of the offers are low. The chart below dispels both of those myths.

All Single Family Homes, Condos, Townhouses, and Villas Sold January 1, 2010 through March 23, 2010 – Short sales excluded Sarasota County		
	All Transactions	Sales over \$500,000
# of sale transactions	1,411	144
Contract in 30 days or less	259 (18%)	14 (10%)
Contract in 180 days or more	289 (20%)	68 (47%)
Sold at Full Price or More	297 (21%)	9 (6%)
Sale Price/List Price for contracts in 30 days or less	97%	93%
Sale Price/List Price for contracts in 180 days or more	92%	89%

In slightly less than 3 months over 1,400 residential residences have sold in Sarasota County. Of these, 144 sold for \$500,000 or more. Across all sales, 18% went to contract in the first 30 days of the listing and 20% sold for full price or more (note that short sales were excluded because they frequently close for more than full price). In the \$500,000-plus category, 10% sold in 30 days or less and 6% sold for at least full price.

Price it right and don't worry about leaving room to negotiate. You will look better versus your competition, get more showings, more offers, and sell your home faster and at a higher price.

VI. Pricing Your Home for Maximum Profit

Because of the internet, most of the information about your home, the competitive listings, and prior sales is all known to everyone. While each buyer will place a different value on the differences between your home and the comparables, the difference will probably not net out to much. In other words, you can expect all of the buyers to value your home within a very narrow range.

Buyers will pay the asking price or more for a home if they feel that the price reflects value. Furthermore, finding a buyer for a home priced well does not take very long. Many people each month sell their home in 30 days or less.

The cost of holding real estate is greater than the average rate of historical appreciation, and much greater than the expected appreciation over the next 6 to 12 months. The longer you hold unused real estate, the lower your return – appreciation will rarely bail you out.

All of these factors say that the risk of a poor pricing decision lies not in pricing your home too low, but pricing it too high. Old clichés like “I can always lower my price but I can’t raise it” or “If I don’t get my price, I can afford to wait” or anything similar that suggests that there is no cost associated with holding real estate is just ridiculous. Pricing your home too high will cause you to rack up holding costs and drain profits from your ultimate sale. The dollars you spend on holding costs are no less real than the dollars you paid to originally purchase the home. The only difference is that the purchase costs are sunk costs – there is nothing you can do about them at this point. The holding costs are completely controllable.

The rational approach is to price your home at a conservative estimate of market value. In markets that are very thin, like neighborhoods with no sales at all in the past 6 months, this estimate may be difficult to make. You will have to broaden your definition of “comparable” and make an educated guess. If you get no activity after 3 weeks reduce the price. Watch your internet and MLS activity stats (hits, page view, etc.) to evaluate the effectiveness of your price. If you are getting agent views in MLS, agents are emailing your listing to their customers, and customers are opening the emails (all of these stats are available), then your home is being exposed to the market. If you aren’t getting any showings, the only solution is to lower the price.

Remember, if your home is really worth \$500,000 today and prices just remain flat next year and your holding costs are 8% between interest, taxes, insurance, and utilities, then you will be \$40,000 lighter at the end of the year. It is costing you over \$3,000 every month you own the home. If the “next wave” of foreclosures hits the market next year and prices drop another 6%, then your cost of holding just went to \$70,000 next year. These costs are just as real as the money you spend at the grocery store each week. Deploy your equity somewhere else and start making money again.

VII. How to Use MLS and Poor Pricing Decisions of Others to Put the Sale of Your Home into Hyper-drive

The data in the previous sections show two human tendencies that you can put to your advantage.

- sellers almost always over price their home. 47% of homes that sold in Sarasota County so far this year were on the market for over 6 months.
- If buyers see value, they will pay you full price or more. Buyers do want a deal, but they don't measure the deal like most sellers think. Buyers are educated and know that just because they get the home at big discount to the asking price, doesn't mean that it's a deal. A deal is the difference between the sale price and their idea of value. It has nothing to do with the asking price.

Using and believing these two thoughts, you can actually create an auction environment in MLS. Traditional home auctions are expensive and usually just attract investors. Investors are not emotional and are not great prospects for getting maximum price for your home. There is also no back-down strategy available for an auction. You pay the auction company a huge upfront premium that is used to advertise the auction. Usually most of this fee is non refundable. If you don't sell, you are out the fee.

Here is the basic idea of the MLS auction;

- List the home in the local MLS at a very low price but something you could accept if only one person showed up to buy the home. For this to really work, the price needs to look like a foreclosure price. The price should actually be 5% to 10% under the current market.
- Enter the listing (or lower the price if it is already listed) on a Monday. Clearly state in MLS that the home will be open for 4 hours each day the following Friday, Saturday, and Sunday. Note that the home is NOT as short sale, but that the owner wants to sell the home this weekend. Also state that the owner will not respond to any offer until the following the Tuesday following the open house and that all offers should be submitted prior to Tuesday at 8am. State also that there are no known defects but because of the special price, the owner is selling the home as is with right to inspect. You might also state that offers with financing contingencies will be considered at the owner's discretion. If there are additional mandatory terms, note those in the listing -things like no contingencies for financing, sale of another home, etc.
- Place an ad in the local paper advertising the open house. Use a color display ad with picture if possible. Give the MLS #, web address for more info, and rehash much of what was noted in MLS (open house times and dates, motivated seller, etc.). Buy some Google clicks and direct the clicks to the listing or ideally, a single property website for the home. Try to give the visitors access to the comps (which should all be significantly higher) on the site as well.
- Hold an open house Friday, Saturday, and Sunday.

- On Tuesday, you pick the 3 highest offers and tell those buyers that they are in the top 3. Ask them if they want to improve their offers any before you make a counter offer.
- Make a counter offer to the strongest offer and give them 4 hours to respond. Make it clear that if they don't accept the counter offer, the second place person will be given a chance.

There are two goals with this sort of sale. First is to sell the home quickly and secondly, to spur sort of competition for the home, bidding up the price to or above fair value. Even with fairly priced homes, buyers are lethargic. They think that every home is on the market for months. There is seldom any sense of urgency and that they can just wait for the owners of their favorite homes to lower the price again.

But this sort of promotion sounds like a “blood in the water”. It will send buyers to the open house, they will see other people there, and get a bit anxious about losing a great deal. You will shift control from the buyers to you. The home, though just 10% under market will look like a real steal compared to the rest of the over-priced listings. Buyers will be able to justify offer a little more because it is such a great value and they know that if they don't get it, someone else will.

In order for this to work, you have to nail the price. You really can't price it too low. The further below fair value you are, the more people will make offers and the higher the bidding will go. If you over price it, you will not get any activity. If you try it again anytime soon at a lower price, people will just wait around for the third or fourth act. Get it right the first time.

Your house also has to be very appealing. This doesn't work well on something that is in bad shape or investment property (duplex). You want the buyers to get emotional about it. If prospects walk into a place that needs gutting, they aren't likely to get emotional. They won't see the value.

About the author

Scott Norris is a broker/associate with the Longboat Key office of Coldwell Banker Residential Real Estate, LLC. He can be reached at (941) 545-8706 or by email Scott@ScottNorris.com. More articles about home selling and the real estate market in general are available for download at his website, www.ScottNorris.com. You are also invited to read and interact on his blog at www.ScottNorris.com/scotts-blog.