

PRICING YOUR HOME TO SELL

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This material is for informational purposes only.

This booklet is not intended to solicit properties already listed for sale.

ABOUT PRICING:

The most important decision you'll have to make regarding the sale of your home is how to price it. How you price your home will not only determine how quickly you sell, it will also determine how much money you walk away with.

So you must put great care into coming up with an asking price for your home. Setting an asking price for your home is tricky. On one hand, you want a price that is competitive with prices of other properties on the market so that you can get offers on your property. On the other hand, you want the asking price sufficiently high so as to bring you the highest possible return after negotiations.

Most sellers fail miserably at this task.

While very few sellers actually under-price their homes, I would say from my experience that probably two-thirds of all sellers make the mistake of overpricing! As a result, most homes sit on the market for many months with the average seller reducing his asking price twice before the home sells.

Our survey suggests that the typical seller would have sold more quickly and without lowering the asking price had he priced his home correctly in the first place.

Clearly, pricing your home close to the market is to your advantage while overpricing your home can hurt you. Why, then, do so many people overprice their homes? There are a number of reasons:

1. Inaccurate Assumption

Many sellers base their asking price not only on what the market value of the home is but on what they need to get for it. They add what they paid for the home, plus the cost of the work they put into it, plus commissions, closing costs, and any profit they may want to realize. And that becomes their price.

To see the folly of such an approach, imagine that you want to purchase a Honda Civic, "the car that sells itself." You go over to your local Honda dealer who informs you that he's asking \$50,000 for the car! You reply that if you had that kind of money, you could buy a Mercedes or a BMW. "Well", answers the dealer, "I'm trying to put two kids through school. I really need to get \$50,000 for it." You walk across the street and buy a Toyota Tercel instead.

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2. Emotional Attachment

Homeowners are emotionally attached to their homes, and to a large extent equate the value of their homes with their self-value. Everyone feels that their home is special, and you're probably no exception. After all, you chose that home over dozens of other you looked at. You furnished and decorated it, adding personal touches. Perhaps you watched your children grow up there. All of this tends to cloud your judgment and affect your decision-making.

No matter how knowledgeable you are about real estate, you are still prone to making mistakes when it comes to your own home. We recently heard of a real estate developer who has an excellent track record of pricing his projects so that they sell out quickly and at a substantial profit. But when it came to pricing his own home, a gorgeous English Tudor home with spectacular views, he lost his objectivity. His home has now been on the market for over one year and he has yet to receive single offer!

This brings up another important point: no matter how spectacular your home is, you will not be able to sell it if it's not priced correctly. There is a right price for everything: a gorgeous mansion will sit on the market if it's overpriced, while a starter home beside the railway tracks will sell quickly if the price is right.

To make sure that the price is right, you must detach yourself from your home and try to think of it purely as a business asset.

3. Denial

Another reason why people overprice their homes is that they find it hard to accept the value of their home. Denial is the natural way that human beings react to terrible news. For example, psychologists have identified denial as the first stage a terminally ill person goes through when learning of this illness. The person then goes through the stages of anger, bargaining, and grieving before finally accepting their fate.

Of course, being told that your home is worth tens or even hundreds of thousands of dollars less than you thought is not nearly as terrible as being told that you're going to die in six months. But most people react in a similar way. It often takes several months for the average seller to accept the truth about what their home is worth.

4. Pride

Very often pride also comes into play. The seller who bought his home at the top of the market feels like a fool because he paid \$250,000 for what is now a \$220,000 home. If you are feeling foolish over what you paid for your home, don't be so hard on yourself. It was hard back then to know that the market would not continue to rise. You weren't a fool for paying \$250,000 back then, but you may be a fool if you ask \$250,000 today.

5. Greed

Let's face it; greed is one of the most powerful human motivators. We all want to get the most we can for ourselves and our families, and usually this involves money. So, as we get ready to sell the single greatest financial asset we own, it's only natural that we start to have fantasies that somebody is going to come along and pay us more money than the place is worth.

Forget it. This isn't going to happen if you think otherwise you're fooling yourself. If you overprice your home, not only will you waste your time but you'll probably end up getting much less for it than you would have had you priced it correctly in the first place.

6. Room for Negotiation

Most people are under the mistaken impression that you have to start high in order to settle at the right price after negotiations. The facts show otherwise. As the statistics indicate, homes that are priced correctly sell very close to the asking price.

Think about the assertion that about two-thirds of sellers overprice their homes. With all those overpriced homes on the market, think of how great your home will look if you simply price it close to what it's worth! The home will look like a great buy, and buyers will bid very close to what you're asking. In some instances you may even have buyers bidding against each other and driving the price up!

7. Lower the price later

Faced with the choice between overpricing and under-pricing, most people would choose the former, and understandably so. The feeling is that an asking price can always be lowered if it turns out to be too high.

Many people will tell you that the best way to price your home is to call several Realtors and have them come by and give price evaluations of your property. Usually, most of the price evaluations will cluster near a certain figure, and this will give you a good idea of what your home is worth.

That's the way it is supposed to work. This is what usually happens:

The Realtors who come to view your home are competing against each other for the listing. Those Realtors who have been around for a while have learned from experience that very few new sellers are prepared to hear the truth about what their homes are worth.

So rather than risk alienating you and losing the listing to a competitor, most Realtors will tell you what they think you want to hear, rather than what your home is really worth.

After a Realtor has secured the listing, he'll work hard on it for months, gradually getting you to lower the price further and further until finally the home is sold. No wonder many home owners don't like or trust Realtors and find the selling of their home most stressful and generally disappointing. Please read on... it can be not only a rewarding, but an exciting experience; especially if you're moving to your "dream home".

Do all Realtors operate this way? Of course not. Some Realtors will give you an honest evaluation right at the outset. Unfortunately, the honest evaluation will often be much lower than the others you receive, leading you to question the Realtor's knowledge or motives. If you are like most sellers, you'll think that the Realtor is trying to under-price your home so that he can sell it instantly and make a quick commission. So, you'll dismiss that Realtor and list with one who quoted you a higher price. Months later, the home will sell for much less than your original asking price, by then the honest Realtor will be long forgotten.

Instead, you'll remember the Realtor who worked on the property for all those months and finally effected a sale. After all, he fought for you day after day, month after month. He did his best to get you the price you wanted, but unfortunately the market was bad and you finally had to settle for what you could get.

You're thrilled with the job your Realtor did for you and you recommend him to all your friends. What you don't realize is that he has probably done you a great disservice. You could have sold your home faster and for more money if you had listened to the Realtor who had the nerve to tell you the truth.

As you can see, you can get into big trouble if you rely on the words of Realtors and appraisers. If you really want to get an accurate price for your home, here's what you should do:

Invite Realtors to come view your home, and tell every Realtor that you are extremely serious about selling the home, but that you are under no great pressure and you want to get top dollar. Also tell them that you are ready to move now if you receive an acceptable offer. Then tell them that you want an honest appraisal and that you absolutely despise Realtors who fluff up the price just to get the listing..

As each Realtor gives you his evaluation, challenge him to back up that evaluation with comparables from the neighbourhood. Comparables are very easy for Realtors to find because most real estate agents are members of local real estate boards that provide them with the sale prices for every real estate transaction recorded in the area.

The problem with this strategy in a declining market is that by the time you do lower the price, the home will be worth less than when you started. This is known as "chasing the market".

8. Bad Advice

Many people price their homes according to advice given to them by their friends, relatives, lawyers, or accountants. These advisors may be bright and may be experts in their fields, but they are absolutely unqualified when it comes to pricing a home.

SO HOW DO WE PRICE A HOME CORRECTLY?

First we estimate what the home is worth. The definition is simply that a home is worth what it sells for. Unfortunately, we can't know that answer until the home actually sells. So we do the next best thing: we look at recent sales of similar properties in the same or similar neighbourhoods and we use the sale price of those homes to estimate what our selling price will be. Then we set an asking price by adding a little bit for negotiating room onto the estimated selling price.

Many people believe that the best way to approach the problem is to have a professional do all the work. One thing you can do is what banks do: call a certified appraiser. In order to perform bank appraisals, an appraiser must be certified by one of several accrediting institutions. You can tell if an appraiser is certified because he will have initials after his name, such as C.R.A., or A.A.C.I. to name a couple.

When the appraiser comes to your home, he will take measurements, take photographs, and ask you pertinent questions. He will then go back to his office where he will write a detailed appraisal which includes a "Market Data Analysis" based on comparable sales, also known as "comparables".

The market analysis sheet will have little columns where the appraiser can make + or - adjustments, in dollar amounts, next to each criterion. For example, if your home has a newer kitchen than Comparable 1, he may add \$6,000. If you have a smaller backyard, he may subtract \$10,000, and so on. At the bottom of the page, he will have a final tally that tells you your home is worth \$232,000, or some other precise number. **Unfortunately, the real world doesn't work that way.**

The comparables appraisers use, are often poor ones. Since many appraisers do not specialize geographically or by type of home, they can't possibly know a local market well enough to make an accurate determination.

We know of countless instances where appraisers used comparables that were very different from the subject property, and which resulted in faulty appraisals.

That's why it is imperative that you rely only on someone who is an expert on the specific type of property you're selling. Sometimes calling a local real estate agent is better than contacting an appraiser, and the Realtor will usually perform some type of appraisal or market analysis free of charge as an inducement to get the listing of your home.

Of course, you must choose the right real estate agent. Firstly, you must find a Realtor who is competent, and that is no easy task.

It is crucial that the comparables you and/or your Realtor use are valid ones. In order to be valid, each comparable must fit the following requirements:

- Must have sold within the past 3 months (in fact, in a rapidly changing market, 3 months may even be long. You must make adjustments to take into account the rising or declining market).
- Must be approximately the same square footage.
- Must be approximately the same age.
- None of the judging criteria (e.g. location, type of building, site/view, etc) can be drastically different.

Keep in mind that the most important criteria are those that you cannot change, such as location, size, and site/view. Other criteria, such as the amount of improvements, have a much lesser effect on the price. Don't make the mistake of thinking your house is worth \$50,000 more than identical houses in the same area because you spent \$50,000 renovating and decorating.

In fact, at the very most, improvements can only add 5% or 10% to the value of the home. And if the improvements are too taste-specific, they may even lower the value, no matter how high-quality they are. Forget the notion you may have that "this home is for a very specific type of person who will fall in love with it". The pool of buyers is small enough without you narrowing it by adding extra constraints that are entirely a function of your ego.

Once you've determined the selling price of your home, you can establish an asking price, which in today's market is usually within 5% of the selling price.

Since today's buyers often make low offers, a common approach, as we've mentioned, is to start with an asking price that is on the high side in order to leave enough room for negotiation. Again, the problem with this approach is that if you start too high you won't get any offers.

You'll have much better luck by setting slightly lower price and being firmer on it. We have found that in today's market the most difficult aspect of selling is in actually getting a buyer to make an offer. The typical buyer has many homes from which to choose so you should price your home to compare as favourably as possible with those homes.

If you do, you should be able to sell your home very close to the asking price. In some instances, you may even sell at or above the asking price, as interested buyers bid against each other! Homes that are priced well generate interest and create momentum, even in a bad market. Homes that are priced higher, sit on the market and get "stale".

So if you want to sell quickly and for top dollar, set a seductive asking price. Pay attention to how the price sounds. An asking price of \$199,800 sound so much more appealing than an asking price of \$200,000, even though it's only a difference of \$200 (and it puts you ahead of all those listings in the Multiple Listing system at \$199,900.

As you may have gathered by now, pricing a home is not an exact science. You'll know whether or not you've priced your home correctly after you've had it on the market some time. Ask your Realtor how long the average home is staying on the market in your area. If you've priced your home correctly, you should be able to sell it or at least get offers within half that time period. If you haven't at least gotten offers, then you should go back and re-evaluate your pricing.

MARKET TIME VS. SELLING PRICE

0-4 weeks	98.1%
4-12 weeks	96.4%
13 - 24 weeks	94.4%
24 - more	91.1%

The longer your home is on the market the less it will sell for.

According to a recent independent study, if a property is:

- priced 15% over fair market value, the chances are 10% it will sell.
- priced 10% over fair market value, the chances are 30% it will sell.
- priced 5% over fair market value, the chances are 50% it will sell.
- priced at fair market value, the chances are 95% it will sell.